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The Rt Hon Michael Heseltine MP  
Secretary of State for Defence  
Ministry of Defence

*John Michael*

1984 PAY NEGOTIATIONS FOR NON-INDUSTRIAL CIVIL SERVANTS

You will have seen my minute of 16 March to the Prime Minister to which I attached a preliminary assessment by officials of factors which would bear on the 1984 pay negotiations for non-industrial civil servants.

... Officials have now prepared the enclosed further report, analysing possible negotiating options, which we are to discuss at the meeting of MISC 66 arranged for Monday 9 April. My own firm view is that we should aim for an outcome around 4½ per cent.

Copies of this letter go to the Prime Minister, to the other members of MISC 66 and to Sir Robert Armstrong.

*YH Evh*  
*Nigel*

NIGEL LAWSON



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1984 PAY NEGOTIATIONS FOR NON-INDUSTRIAL CIVIL SERVANTS

SECOND REPORT FROM THE CHAIRMAN OF THE OFFICIAL GROUP ON CIVIL SERVICE PAY NEGOTIATIONS

Introduction

The Chancellor of the Exchequer circulated under cover of his minute to the Prime Minister on 16 March a report setting out the background to the forthcoming negotiations on the pay of non-industrial civil servants, with a preliminary assessment of the issues involved.

2. This report looks at the prospects for the negotiations with the Council of Civil Service Unions, and considers possible negotiating options.

The factors

3. The principal factors were discussed in the earlier note; they can now be made more precise, thus:

- (a) Cost. Provision is made in Departments' programmes for an increase of 3 per cent in Civil Service pay and related allowances for 1984-85.
- (b) Recruitment and Retention. Although there are difficulties in some grades, generally speaking recruitment and retention is not currently a real problem in the Civil Service outside London. The position in London is more difficult, but this is best addressed through London Weighting.
- (c) OME Report on pay increases in the private sector. It was agreed last Autumn that as a step towards a longer-term framework for pay negotiations based on the proposals in the Megaw Report, the OME would collect data in connection with the 1984 pay negotiations. It was explicitly agreed that this would inform but not in any way constrain negotiations. The OME's Report has now been received. It finds that the median for non-manual pay settlements in the private sector over the period examined was 6 per cent, with the upper quartile at 7 per cent and the lower quartile at 5 per cent. There is a significant clustering of settlements at 5 per cent: 15 per cent of employees covered received

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less than 5 per cent, while 65 per cent received more. These figures do not vary significantly with size of firm, period covered, or average salary, though the very low paid and the very high paid got a little more. None of this is particularly exceptional or out of line with other surveys.

- (d) Settlements elsewhere. The OME data is confined to the private sector. There have been hardly any settlements to date in the public sector. In the public services, local authority manuals have settled for 4½ per cent. It is possible that Scottish teachers will settle for the same figure. The result of their ballot on an offer of 4½ per cent should be known in mid-April. Other notable public service settlements yet to come include teachers in England and Wales, NHS groups whose pay is negotiated, and those covered by the Review Bodies (Top Salaries, Armed Forces, Doctors and Dentists and Nurses). Offers of 3 per cent are at present on the table for the English and Welsh teachers and the NHS negotiated groups.
- (e) Price movements generally. The RPI is currently increasing at an annual rate of 5.1 per cent, expected to reduce to 4 per cent by Q2 1985. The TPI is currently increasing at an annual rate of 4.2 per cent.
- (f) Long-term pay arrangements. Discussions on long-term pay arrangements derived from the report of the Megaw Inquiry, set up following the 1981 pay dispute, have made little progress to date, and the two sides are still far apart. But the weight given to the private sector settlement data produced by the OME (see 3(c) above) will bear on the chance of keeping these discussions alive. The linch-pin of the Megaw proposals is to relate pay increases for civil servants to the inter quartile range of increases awarded in the private sector in the same pay round. A note on the state of play on Megaw is at Annex A.

Possible Outcome

4. Given these factors, some possible outcomes might be as follows:

- (a) 6 per cent. This is the median figure shown by the OME Report.

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- (b) 5 per cent. This is the lower quartile figure shown by the OME Report.
- (c) 4½ per cent. This is the lowest level at which any public service group has settled to date.
- (d) 3 per cent. This is the pay factor built into public expenditure programmes, and is on offer to teachers in England and Wales, and to the NHS negotiated groups.

#### Discussion of Options

5. We assume that an outcome at 6 per cent can be ruled out. While the unions will make a strong bid for 6 per cent as the outcome, they cannot realistically expect the Government to offer a settlement at that level. At the other limit, an outcome of 3 per cent looks unrealistic. The OME Report shows only 4 per cent of employees settling at or below this level and there have been no public sector settlements (as opposed to opening offers) at 3 per cent. It is not a figure which the unions would accept, and an attempt to impose it would almost certainly precipitate industrial action.

6. There is a reasonable chance of an agreed settlement at 5 per cent. It would be less than the unions will ask for, but better than staff expectations. If ultimately the unions do not trim their demands, at 5 per cent a refusal of arbitration and a decision to impose should seem reasonable to staff. 5 per cent should also help to keep the talks on the longer term alive, and indeed we should want some assurance of this before floating the possibility of a settlement at this level.

7. 5 per cent for the Civil Service could be defended on the grounds that this was in line with the Megaw approach which applied only to non-industrial civil servants. But in practice it would make it more difficult to hold the line at 4½ per cent for other public service groups, and would be resented by the local authorities and their employees. It would be particularly difficult to offer when only 3 per cent was on the table for certain other public service groups. Although the cash difference between 5 per cent and 4½ per cent is only of the order of £25m, the higher figure would put in jeopardy significantly more departmental cash limits.

8. There seems no attraction in a figure below 5 per cent, but higher than 4½ per cent. Anything below 4½ per cent would be seen as discriminatory in view of the

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settlement at this level for the local authority manuals, and the offer to the Scottish teachers.

9. Even  $4\frac{1}{2}$  per cent is very unlikely to be agreed by the unions. It would very probably have to be imposed, and arbitration refused. We doubt if this would be greeted by more than sporadic industrial action; the more likely staff reaction would be weary resignation. But a combination of the refusal of arbitration and an imposed settlement below the lower quartile of private sector settlements (the floor recommended by Megaw) would seriously damage, and might end, the current talks on longer term pay arrangements.

10. On the other hand, there are, as mentioned above, strong arguments in terms of the wider public service pay position for not going above  $4\frac{1}{2}$  per cent. This would be below last year's figure for the Civil Service of 4.86 per cent, at a time when inflation is falling. It would also put a little less pressure on departmental cash limits than 5 per cent. These arguments seem overwhelming.

#### Timing

11. If Ministers were to be prepared to contemplate a settlement at 5 per cent there may be more chance of agreeing this with the unions if it is offered quite quickly. If the Review Body recommendations were higher than 5 per cent (which is quite likely) and were accepted this would make it more difficult subsequently to secure a negotiated settlement at this level in the Civil Service.

12. If Ministers decide to aim for a settlement at say  $4\frac{1}{2}$  per cent there is also a question of tactics and timing. We would presumably start at 3 per cent.

13. Moving quickly to a  $4\frac{1}{2}$  per cent outcome would help to reinforce the line established by the local authority manuals' settlement and the offer on which Scottish teachers are balloting, and ahead of publication of the Review Body reports. On the other hand an imposed settlement in which the unions had not acquiesced and which they were still fighting would carry less demonstration weight with it. A move to impose  $4\frac{1}{2}$  per cent quickly would also be at odds with the assurances which have been given of genuine negotiations and would come very quickly after events at GCHQ.

14. The converse arguments apply to playing the negotiations more slowly. On the one hand to do so would give more reality to the pledge to negotiate. There

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might also be helpful RPI figures as the negotiations proceeded and with passing time pressure could build up on the unions to come to a conclusion so that staff could see the increases in their pay packets. On the other hand, the negotiating climate might worsen as the Review Body reports are published since it is quite likely that they will recommend 5 per cent and more. The unions may also be pushed into more militant positions by their annual conferences in mid May if the negotiations are still unresolved by then. And other public service negotiations might breach the figure of  $4\frac{1}{2}$  per cent, making it harder to hold the Civil Service at this level.

15. The timing of the negotiations depends to some extent on union tactics as well. But Ministers will want to decide whether their own preference is to push them to a conclusion quickly or play them long taking account of developments elsewhere.

Other elements in the negotiations

16. While a number of detailed elements will need to be resolved, including for instance the relationship of London Weighting to the settlement as a whole, two are likely to be prominent:

- (a) The low paid. The CCSU will be looking for a settlement angled towards the low paid, and some of the OME evidence suggests that in the private sector the low paid are doing relatively better than the better paid. There is no particular economic or managerial reason for favouring the low paid. But we would like authority to discuss with the unions a modest move to favour the low paid (within the total cost envelope agreed) if, as last year, this will help secure an agreed settlement.
  
- (b) Hours. The unions are likely to put in a claim for a reduction in the working week of 1 hour in London and 2 hours outside London. We recommend that Ministers reject this. The OME Report is helpful in suggesting that less than 5 per cent of non-manual employees in the private sector experienced a reduction in basic weekly hours over the period surveyed;  $\frac{1}{2}$  per cent actually experienced an increase in hours. We see no reason to move on this in these negotiations, though since the union claim was deferred from last year they are

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likely to press hard.

Finance

17. The Treasury's best estimate is that Departments generally ought to be able to absorb a 4 per cent settlement. But there could be variations between Departments and anyway a settlement exceeding 4 per cent is likely. The Treasury propose that departments should do their best to absorb whatever settlement emerges. In cases where departments claim that the settlement could not be absorbed or offset within existing cash limits, the position will be looked at urgently on its merits. Any special addition to cash limits on this account would be charged to the Reserve.

Summary

18. Ministers are invited to:

- (a) note the assessment set out above and the alternative approaches discussed in paragraphs 5 to 15;
- (b) indicate whether they wish to
  - (i) authorise officials now to explore the possibility of a quick agreed settlement at 5 per cent; or, more likely,
  - (ii) aim for an outcome at, say,  $4\frac{1}{2}$  per cent;
- (c) if they wish to go for around  $4\frac{1}{2}$  per cent, indicate how quickly they would want to proceed;
- (d) indicate whether they would be prepared to accept a concession to the low paid as part of securing an agreed settlement;
- (e) confirm that they would not wish to offer a concession on hours;
- (f) note the proposed financing arrangements; and
- (g) note that further reports will be made.

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ANNEX A

MEGAW: STATE OF PLAY

The Megaw Inquiry was set up in June 1981 to advise on future arrangements for determining the pay of non-industrial civil servants. Its setting up contributed to the resolution of the 1981 Civil Service industrial dispute which followed the Government's suspension of and withdrawal from the pay research agreements. The Inquiry reported in 1982.

2. It recommended that settlements year by year should be constrained by the upper and lower quartiles of pay movements in the private sector in the current pay round. Also, Civil Service pay rates would be expected to lie between the upper and lower quartile of outside pay levels and there would be four-yearly surveys of these. If Civil Service pay levels had moved outside the inter quartile range action would be taken over time to bring them back within these limits. Negotiations each year would take account of the recruitment and retention position, management requirements, costs and economic circumstances. Arbitration would be by mutual consent. An independent Pay Information Board would be set up to gather and analyse data for the two sides. The Inquiry also recommended simplifying the pay and grading structure and introducing performance-related pay.

3. In December 1982 the Government indicated its willingness to enter into negotiations with a view to agreeing an ordered pay determination system based on the Megaw recommendations. Noting that both sides would have to accept some limitations on their freedom of action and that both sides would seek safeguards from their respective points of view, including in the Government's case safeguards to the public purse and public policy, the Government said that it was nevertheless prepared to accept, in principle, the broad approach of the Megaw recommendations and to negotiate on them with goodwill and the intention to succeed.

4. Negotiations on a longer-term agreement based on Megaw began early in 1983. In the judgement of the Treasury negotiators, the fact that these negotiations on the longer-term were in progress was a significant factor in securing union agreement to a 1983 settlement acceptable to the Government.

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5. In the summer of 1983 the unions asked for a statement of the Government's position on what they regarded as three key issues: the role of the Pay Information Board; the width of the range of pay levels within which Civil Service pay levels should lie; and unilateral access to arbitration. The response of 23 September 1983 said that the Government was prepared to discuss constructively the possibility of access by both sides to the raw material collected by the independent data gathering body (so as to check the analyses made by the body), subject to the body's work being accepted as authoritative, and a proper basis for negotiations. The Government declined to narrow the range of outside pay levels within which Civil Service pay should lie, arguing that it was desirable to stick to the inter quartile range (which is likely to provide considerable room for manoeuvre) in order to allow proper scope for other factors to come into the negotiations. The Government reaffirmed its view that there should be no unilateral access to arbitration and said that it could envisage circumstances in which Parliament might be asked to approve the overriding of an arbitration award or of the operation of the new arrangements overall.

6. The unions reacted adversely to this statement of position but were, however, prepared to continue in negotiation on the basis that they would seek to get the Government's position changed. Both sides were prepared to keep the discussions on the longer-term alive on the basis that a satisfactory long-term agreement was, over time, better for both sides than annual free bargaining. Both sides, therefore, agreed to consider the possibility of some form of data collection to inform but not constrain the 1984 pay negotiations, to prepare for the kind of arrangements being discussed for the longer-term. Such data collection was based on the assumption that the two sides remained in negotiation over Megaw and were moving forward towards acceptable long-term arrangements; specifically the data would not constrain the negotiations and specifically there was no advance commitment to arbitration for 1984.

7. Discussions on the longer-term continued over the Winter. They were interrupted by union preoccupation with GCHQ but are shortly to be resumed. It is clear that there remain significant differences between the two sides. These include:

- (a) Arbitration, where the unions want unilateral access to arbitration without any Parliamentary override and the Government want joint

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access with a right to Parliamentary override and with a right to override the operation of the agreement itself.

- (b) The attitude that should be adopted towards the framework for setting the inter quartile constraints on movements and levels.
- (c) The size of the constraints so far as levels go.
- (d) The position during the transitional period and whether and if so to what extent the movements constraints should bite here.

There are also potentially awkward questions relating to eg the handling of relativities and structure and shape of the PIB or similar body.

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