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cc Civil Service: Pay and Pensions : Pt 14.

10 DOWNING STREET

*From the Private Secretary*

SIR ROBERT ARMSTRONG

CIVIL SERVICE PAY NEGOTIATIONS  
REVIEW BODY REPORTS

The Prime Minister held a meeting today to discuss the next stage in pay negotiations for non-industrial Civil Servants and the Government's response to the recommendations of the Review Bodies. Present were the Lord Chancellor, the Chancellor of the Exchequer, the Secretaries of State for Defence, Employment and Social Services, Lord Gowrie, Minister of State, Treasury, Mr Gregson and Mr Kemp (first item only).

The Chancellor had proposed, in his minute of 17 May an early offer of the Civil Service Unions worth around 4½ per cent, incorporating 5 per cent for the two-thirds of the Civil Service on flat rates or maxima, 3½ per cent for those still on increments, with a minimum £3 per week underpinning. It was agreed that such an offer should be made with the aim of achieving an early negotiated settlement.

In discussion, it was thought possible that this offer might be accepted, though the Unions might wish to push up the 3½ per cent being offered to those still on increments. There was some scope, though extremely limited, for accommodating this within the 4½ per cent total. It was important not to undermine the negotiations with the teachers by exceeding this figure.

The Secretary of State for Employment, in his letter to the Chancellor of 21 May, said it was important to clarify the Government's attitude to arbitration. If there were any prospect of arbitration it would be inadvisable for the Government to improve its offer, even informally. Under the existing agreement the Civil Service Unions had unilateral access to arbitration unless the Secretary of State for Employment declared that this should not happen as a matter of public policy. Summing up this part of the discussion, the Prime Minister said Mr Kemp should warn the Unions, at his informal meeting, that it was most unlikely that the Government would accede to a request for arbitration. If the Unions refused the pay offer, it would then be for the Secretary of State for Employment to declare this formally. The Chancellor of the Exchequer should report the outcome of Mr Kemp's negotiations to colleagues.

Discussion then turned to the recommendations of the Review Bodies. The Prime Minister felt that, with the exception of the

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nurses and professions allied to medicine, the recommendations of the Review Bodies should be scaled down by one means or another to bring the value of the awards closer to that being offered in other important public sector settlements. Your note of 18 May set out ways in which this could be done - by deferring implementation, by staging or by extending the period of the settlement, or by some combination of these.

In discussion, it was noted that extending the period of the settlement, while not producing any cost savings in the current year, would reduce the cost in the following year and would push the settlements concerned to a later position in the pay round. To extend by three months to 1 July would, however, leave very little time to complete all the processes of consideration, including Parliamentary override if required, before the Recess. The settlements could become entangled with early claims for the following pay round. There would also be complications in the relationship with other non-Review Body groups in the same sectors whose settlements remained at 1 April.

The meeting then considered the recommendations on nurses and professions allied to medicine. In discussion, it was argued that there was a case for accepting this in full particularly as this was the first year these groups had come within the Review Body system. The Secretary of State for Social Services said he had agreed with the Treasury a basis for financing this award (together with that for doctors and dentists). £54 million could be found from within existing provision for the NHS (equivalent to about  $\frac{1}{2}$  per cent of NHS resources). This would involve the first ever cut in total NHS manpower. As indicated in paragraph 13 of your note, there were also significant efficiency savings to be achieved. This would require successful implementation of the management changes recommended in the Griffiths Report. Acceptance of these would be helped by making a full award to the nurses.

Summing up this part of the discussion, the Prime Minister said the recommendations on nurses should be accepted in full without staging or extension of the period of settlement. £54 million should be found from existing NHS provision, the rest from the contingency reserve, though the Chancellor of the Exchequer and the Secretary of State for Social Services should consider whether part of this should be financed by an increase in the NHS stamp.

The discussion then turned to the remaining pay groups where it was agreed that the cost of the award should be scaled down to around  $4\frac{1}{2}$  per cent. One possibility was to defer implementation until August. A similar effect could be achieved by paying 3 per cent from 1 April with the balance from 1 November. While both these approaches would reduce the value of the awards in 1984-85 they would create a higher base, and hence higher public expenditure, in 1985-86. This could be offset by extending the period of the settlement by two or three months. After some discussion, it was agreed that the recommendations of the AFPRB, DDRB and TSRB should be staged by allowing 3 per cent from 1 April and the balance from 1 November, but without any extension of the period of settlement. It was also agreed that,

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since the steps were relatively small by historical standards, there should be no departure from the presumption that pensions were related to salaries actually payable and not to deemed salaries. To concede this would run the risk of reopening the decisions taken following previous Review Body settlements.

Summing up, the Prime Minister said these proposals should be put to Cabinet on 7 June for approval with the intention that they should be announced to Parliament that day or the next. She invited you to prepare a paper for Cabinet, to which would be annexed a draft of the announcement.

I am copying this minute to Richard Stoate (Lord Chancellor's Office), David Peretz (Chancellor of the Exchequer's Office), Richard Mottram (Ministry of Defence), David Normington (Department of Employment), Steve Godber (Department of Health and Social Security), Michael Corcoran (Minister of State's Office, Treasury), and Mary Brown (Lord Gowrie's Office). It should be shown only to those officials who need to know of its contents in order to assist the Cabinet Office in preparing the paper.

Andrew Turnbull

21 May 1984