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Treasury Chambers, Parliament Street. SW1P 3AG
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The Rt Hon Michael Heseltine, MP
Secretary of State for Defence

25 February 1985

John Major

1985 PAY NEGOTIATIONS FOR NON-INDUSTRIAL CIVIL SERVANTS

--- I enclose a note by officials, suggesting the next steps in this year's pay negotiations for non-industrial civil servants. The settlement date is 1 April.

As you will see, we are invited to agree that Treasury officials should make an opening offer to the unions on the lines described in paragraph 9 of the note: essentially, an offer worth 3.95 per cent on the pay bill (4.01 per cent on earnings), plus minor individual improvements of interest to the separate unions, estimated to cost about 0.1 per cent.

I am content that an opening offer should be made on these lines. I think anything less than about 4 per cent would not look serious and would ultimately prove counter-productive. But we certainly do not want to go any higher at this stage. I am also content with the shape of the offer. The inclusion of a flat rate element (£4 per week) follows precedent and while it has disadvantages in pure economic terms, I think we should include it in our immediate offer in view of the claims we have received and the need to negotiate as low a settlement overall as possible this year.

If you and other colleagues agree, I should like to authorise my officials to make this offer, probably in the first fortnight of March. (Our officials can settle the exact date.) We can then meet to discuss the next steps after officials have assessed the unions' reaction. But I hope we can agree an opening offer on the lines officials propose without an immediate meeting.

I am copying this letter to the Prime Minister, to the other members of MISC 66, to the Secretaries of State for Education and Science and the Environment, and to Sir Robert Armstrong.

NIGEL LAWSON

Nigel Lawson

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**1985 PAY NEGOTIATIONS FOR NON-INDUSTRIAL CIVIL SERVANTS
SECOND REPORT TO MINISTERS FROM THE CHAIRMAN OF THE
OFFICIAL GROUP**

MISC 66(84)1 set out the background to the forthcoming pay negotiations for non-industrial civil servants. The settlement date is 1 April. Claims have now been received from the Civil Service unions and there have been preliminary discussions between the Treasury and union officials. This note discusses the way forward.

Union claims

2. Unlike recent years, the Council of Civil Service Unions has not submitted a single claim this year. Instead, individual claims have been received from each union and these are summarised at Annex A. It will be seen that, with some variation, most are for a flat rate increase of £15 per week or a percentage increase of 15 per cent, or the better of the two. In percentage terms the claims vary from about 17½ per cent for the CPSA and the IPCS (two of the bigger unions) down to 12 per cent for the POA. The average increase on the pay bill, if all the quantified claims were conceded in full, is estimated at about 16 per cent. This compares with the 3 per cent pay assumption built into public expenditure plans.

3. The justification for the claims rests largely on comparability; involving "catching up" since 1980, a perception of the current "going rate" elsewhere (according to the Department of Employment, private sector pay settlements so far in this round are clustering around 5-6.9 per cent; some other indicators are shown at Annex B), and an idea about what comparable jobs elsewhere are getting. Arguments we are deploying about cost restraints and the general absence of recruitment and retention problems (though there are some difficult problem areas), while acknowledged by at least some unions to be factors to be taken into account, are seen as very much less important than these comparability based arguments and, as it is put, the need for a settlement which is "felt to be fair" by civil servants; who, the unions claim, perceive that

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the Government has deliberately adjusted their pay downwards as an act of policy.

4. In our preliminary discussions the unions have said little about possible industrial action. But there have been several reports of Civil Service unions liaising in recent months on contingency plans for industrial action. Local coordinating committees have been set up to organise campaigns. At their pay conferences, only the CPSA backed all-out action - the actuality seems less likely - while the others favoured guerrilla action. The IRSF, however, threaten a one day warning strike failing a satisfactory settlement by 1 April followed, if necessary, by an all-out strike, but probably subject to a ballot of members. Most unions have sufficient funds to finance sporadic, though potentially damaging and costly, action.

Our proposed approach

5. Against this background we have considered our proposed approach, under the headings of shape of an offer and possible settlement, quantum, and tactics. In considering these elements we have to note that although the unions have put in different claims, and although there can be some distinction between the offers that are made as between different unions, generally speaking we shall have to look for a common offer, albeit tailored so far as possible to meet the particular circumstances of particular unions.

6. On shape we feel we have to recognise the concern expressed for the lower paid (of whom there are a relatively large number in the Civil Service) and include, as last year, a flat rate element. This would be lower for juveniles than for adults. For the better paid grades a percentage increase would be offered, without differentiation between those on flat rates or scale maxima (about two thirds of staff) and those still on incremental scales (one third). This does not rule out, if and when the initial offer is reframed, some differentiation (as in previous years), but there are arguments against this. The net cost of the incremental system in the Civil Service is currently estimated

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to be close to zero, and could even be negative. We are running into problems with scale relativities after several years of giving proportionately more to staff at the top of scales or on flat rates. London Weighting would be increased to reflect recruitment and retention problems being encountered in London. In addition to this general package we would look to offer each union something of specific interest to its own members: there are a number of worthwhile and inexpensive improvements which could be proposed which would help to "individualise" the offer so far as particular unions went.

7. So far as quantum goes, our aim must be a settlement which is as inexpensive overall as possible compatible with management desirabilities, including recruitment, retention and motivation of staff, and the degree of industrial action which Ministers might be prepared to face. It is too early at this stage to take a final view, having regard amongst other things to the general uncertainty in the public services pay scene (see Annex B). Our tentative view, however, is that while it would be very difficult to secure agreement to an increase below last year's 4.55 per cent (which was itself not, in fact, agreed, but acquiesced in), it might be possible to finish up below 5 per cent. On the basis of past experience, we would expect that Departments generally would be able to absorb an increase of this order without recourse to the Reserve. However, there may be cases where running cost provision in Estimates may be tight in the event of such an increase.

8. On tactics, we need to consider both the size of the offer and timing.

9. On size, there is a case for opening as last year with an offer worth 3 per cent on the pay bill. But we do not recommend this. The unions fully understand that while 3 per cent has indeed been built into public expenditure plans, historically speaking settlements at between 1½ and 2 percentage points above the pay assumption or factor have been reached and honoured. Moreover, no other public service group has been made an initial offer below

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4 per cent in the current round. On the other hand, given the level of discussions going on elsewhere, the possibility that we may wish to go to arbitration this year (see paragraph 12 below), and our often repeated statement that we intend to engage in genuine negotiations, the opening offer should be about 4 per cent. An initial package might comprise the following:

- a. An increase of £3 per week for juveniles (staff on 16 and 17 age points);
- b. an increase of £4 per week for grades with rates of pay less than or equal to the pay of Clerical Officers and equivalent grades (broadly grades with scale maxima up to £6544);
- c. an increase of £4 per week or 4 per cent, whichever is the greater, for grades with rates of pay greater than the pay of CO equivalents but less than the pay of Principal and equivalent grades (broadly grades with scale maxima between £6544 and £14648);
- d. an increase of 4 per cent for all other grades;
- e. an increase of 4 per cent for pay-related allowances, except where this is not justified on recruitment and retention grounds;
- f. increases averaging out at about 4 per cent for London Weighting.

Such an offer is worth 3.95 per cent on the pay bill and some 4.01 per cent on average earnings. Details are set out in Annex C. In addition we would propose minor individual improvements of interest to the separate unions, as set out at Annex D, estimated to cost about 0.1 per cent.

10. It should be noted that this approach cannot be expected to deal with all the specific recruitment and retention problems

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Departments face. It is proposed that these should be considered separately, outside the general negotiations, on a highly selective basis. This approach avoids facing the problem of weighing the cost of "dead weight" against the unions' dislike of selectivity. The additional cost would have to be met from within existing departmental provisions.

11. So far as timing goes, we think that any initial offer should be made fairly quickly so as to avoid accusations that we were deliberately dragging our feet. Further negotiations would of course then follow, but we should not rule out the possibility of sporadic industrial action even while these negotiations are going forward, given the evident gap between the size of the unions' demands and the size of this initial offer. A further report would be put to MISC 66 following such negotiations, and an improved offer might be recommended.

12. It is worth noting that at some stage Ministers will almost certainly be faced with a request from the unions to go to arbitration. No final decision has to be taken on this now, but in considering present and future tactics the possibility that we may end up at arbitration, on some basis or another, must not be overlooked.

13. A thought in the background is the possibility of some longer-term pay agreement with civil servants. Discussions following the Government's endorsement in principle of Megaw have gone into abeyance post-GCHQ and the way last year's pay negotiations went. In addition, some of the unions are deeply suspicious of Megaw. There may, however, be a case for moving towards some more stable arrangement for the longer term. No decisions are required on this now, but it may be that either during the course of the present negotiations or when they are completed, Ministers will wish to consider whether more positive steps should be taken with the unions to discuss some more stable long-term system.

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Conclusion

14. Ministers are invited (a) to note the assessment of the position set out above, (b) to agree that the Treasury should make an opening offer on the lines set out at paragraph 9, on an early date, (c) to note that following the making of the offer and further negotiations, a further report will be made.

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CIVIL SERVICE UNIONS' 1985 PAY CLAIMS: SUMMARY

| UNION | MAIN GRADES REPRESENTED | SUMMARY OF CLAIM |
|--|--|--|
| Civil and Public Services Association | Clerical, typing and secretarial grades; about 200,000 staff | a. £15 a week increase at all scale points; b. Minimum wage of £100 per week |
| Society of Civil and Public Servants | Executive and higher administrative grades; about 100,000 staff | a. 15 per cent on all scales and scale points; b. Other minor elements |
| Association of First Division Civil Servants/Association of Inspectors of Taxes | Higher administrative grades; Economists; Statisticians; Tax Inspectors; about 10,000 staff | a. General increase of 15 per cent; b. Further increases for particular groups |
| Civil Service Unions | Paperkeepers; Messengers; Office Keepers; Security Officers; Reprographic and Photoprinting grades; other basic grades; about 30,000 staff | a. Minimum increase of 15 per cent b. Underpinning minimum increase of £15 a week; c. Minimum wage for adults of £100 a week |
| Institution of Professional Civil Servants | Professional, Scientific and Technical grades; about 75,000 staff | a. 7 per cent on all scale points (going rate); b. 7 per cent on all scale points (catching-up); c. £7 a week for all grades; d. Minimum wage for adults of £104 a week |
| Inland Revenue Staff Federation | Inland Revenue grades; about 40,000 staff | a. Flat rate increase of £15 a week; b. Reduction in hours to 35 a week and additional 5 days leave, without loss of pay |
| Prison Officers Association and Scottish Prison Officers Association (separate claims) | Prison Officers; about 21,000 staff | Increase of 12 per cent taking account of movement in basic pay, reduction in hours and a reduction in incremental scales |

CURRENT LEVEL OF SETTLEMENTS AND EARNINGS

| | |
|---|---|
| CBI | Over half of settlements in manufacturing and private services since 1 August in range <u>4½-6½ per cent.</u> |
| Dept. of Employment's coverage of settlements | Private sector settlements since 1 August concentrated in range <u>5-6.9 per cent</u> ; public settlements (only three) ranging from <u>5.1-6.9 per cent</u> ; interquartile range of non-manual settlements since 1 April <u>5½-6½ per cent.</u> |
| Income Data Service | Most increases in basic pay over autumn and winter in range <u>5-8 per cent.</u> |
| Average Earnings Index | Underlying increase of 7.5 per cent over last twelve months; private sector 7¼ per cent and public sector 7 per cent. |

II. MAIN PUBLIC SERVICE PAY NEGOTIATIONS: STATE OF PLAY AT 21.2.1985

| | |
|-----------------------------------|---|
| Settled: | Police Federated Ranks 5.1 per cent. Firemen 6.9 per cent. LA builders 6.6 per cent over 15 months (equal to 5.3 per cent at annual rate). LA white collar arbitration award worth 4.83 per cent on average earnings but up to 5.6 per cent for lowest paid; Probation Service worth 4.6 per cent on average earnings [both outstanding from last pay round]. |
| LA manuals: | Negotiations broken down. 4.75 per cent offered (4.5 per cent last year) but employers refused settlement date move. Industrial action threatened in March, possibly in concert with teachers. |
| Teachers (E&W): | Claim worth 12 per cent. (Last year 5.1 per cent from arbitration). Long-term restructuring of pay and responsibility rejected by unions. Also rejected by Education Secretary on cost grounds. Employers offer 4 per cent plus arbitration rejected by teachers. Industrial action being stepped up last week in February. |
| Teachers (Scot): | No claim yet. Industrial action in Ministers' constituencies for SoS to set up independent pay review. (Employers now want one too but covering conditions of service as well). |
| Review Bodies: | (Recommendations last year ranged from 6.5 to 7.8 per cent). Written evidence submitted. TSRB, NPRB looking at pay <u>levels</u> this year. |
| Civil Service: (non-industrials): | Negotiations in early stages. HMT has rejected OME survey this year. CPSA and IRSF claiming £15 a week, most others around 15 per cent. (Last year: 4.55 per cent increase). |

PERCENTAGE INCREASE IN AVERAGE PAY RATES AND TOTAL PAY COSTS

S E C R E T AND P E R S O N A L

| DATE | I JUVENILES | | II GRDS UP TO & INC CO & EQUIVS | | III GRDS ABOVE CO & BELOW GRD 7 | | IV GRDS 5 TO 7 & EQUIVS | | OVERALL INCREASE |
|------------------------------------|-------------------|---------|---------------------------------------|---------|---------------------------------------|---------|-------------------------------|----------|---------------------|
| | BEST OF | AVERAGE | BEST OF | AVERAGE | BEST OF | AVERAGE | BEST OF | AVERAGE | |
| FEB 14 1985 | (LESS THAN £3350) | | (£3300-£6550) | | (£4500-£15000) | | (£11800-£25000) | | |
| | //// | //// | 0.00% | 3.70% | 4.00% | 4.00% | 4.00% | 4.00% | //// |
| STAFF ON SCALE MAX OR FLAT RATE | //// | //// | £4.00PW | £4.00PW | £4.00PW | £7.05PW | £0.00PW | £14.70PW | //// |
| OTHER STAFF | 0.00% | 5.13% | 0.00% | 4.48% | 4.00% | 4.00% | 4.00% | 4.00% | //// |
| | £3.00PW | £3.00PW | £4.00PW | £4.00PW | £4.00PW | £6.27PW | £0.00PW | £12.49PW | //// |
| | PERCENT | £ P.W. | PERCENT | £ P.W. | PERCENT | £ P.W. | PERCENT | £ P.W. | PERCENT |
| AVE INC IN RATES | 5.13 | 3.00 | 4.02 | 4.00 | 4.00 | 6.86 | 4.00 | 13.89 | 4.01 |
| INC IN PAYBILL COSTS(PERCENT) | 5.01 | //// | 3.97 | //// | 3.97 | //// | 3.81 | //// | 3.95 |
| CCSU COVERAGE | CPSA | | CPSA IRSF CSU | | SCPS IRSF IFCS POA | | SCPS FDA/AIT IFCS | | |
| NUMBERS OF STAFF | 2000 | | 249000 | | 212000 | | 22000 | | |

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ANNEX D

**MINOR INDIVIDUAL IMPROVEMENTS OF INTEREST TO THE
SEPARATE UNIONS**

Accountancy Allowances

Increase and extend allowances now paid only to EOs, without going so far as the FDA/AIT proposal for an allowance for all qualified accountants below the senior Open Structure. Would be attractive to the SCPS.

Scale rationalisation at
EO level

Proposal by SCPS and there are some sensible rationalisations which could be introduced at little cost.

AT and equivalents'
starting pay

Minimum point on these scales is being removed. Meets a claim from FDA/AIT.

Starting pay on
promotion

Amendments to the rules. Attractive to all unions.

Ex-gratia payments for
Principals

Payments in recognition of sustained periods of long hours. Should be welcomed by the FDA and IPCS.

Secretarial category

Improvements for those working in London. Attractive to CPSA.

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