

PO-CH/NL/0194

PT B

Chex
Lawson

PART B

CONFIDENTIAL

(Circulate under cover and
notify REGISTRY of movement)



PO -CH /NL/0194



PART B

Begin: 19/6/87

DD: 25 years

Ends: 27/7/87 (CONTINUED)

7/9/98

CHANCELLOR'S PAPERS ON
CIVIL SERVICE (CS)
MANAGEMENT AND PAY
ISSUES

PO -CH /NL/0194

PART B

Paper
Pse

CONFIDENTIAL

PES 87 Ind Act

FROM: S P WILLIS
DATE: 19 June 1987

1. MISS PEIRSON *MP*
2. CHIEF SECRETARY

cc. Chancellor
 Financial Secretary
 Paymaster General
 Economic Secretary
 Sir P Middleton
 Mr F E R Butler
 Mr Anson
 Mr Kemp
 Mr Luce
 Ms Boys
 Mr Gilhooly (or)
 Mr Truman

INDUSTRIAL ACTION IN THE CIVIL SERVICE

Mr Moore wrote to the Chancellor on 17 June to say that he had no objection to the line Mr Fowler proposed to take in regard to the payment of benefit to the newly unemployed in the latest round of industrial action. He went on to register his concern over the effects of the action in his Department and ended with the message that, at the end of all of this, there would be "a bill to pay".

2. So far as the industrial relations aspect is concerned IRD take the view that no Ministerial response is called for; we need do no more than note what was said. But it would be worth your while responding now to the sting in the letter's tail, formally recording your position.

3. The industrial action has begun to put at risk the implementation of the social security reforms in April 1988. DHSS officials warned us some time ago that the unions were keeping out on permanent strike some of the key computer staff who would otherwise be working on the programming for conversions of family income supplement to family credit and of supplementary benefit to income support. DHSS told us that as soon as the Election was over they would put various options to their Ministers, for recovery of the position. Those options have been discussed with us, though we have not yet received full costings. DHSS promised that their Ministers would then approach you for agreement: instead, Mr Moore is simply and suddenly declaring what he will do.

4. His proposals are in line with the options discussed with us, apart from one point. Work on family credit is further advanced than on income support, and extra consultants should do. On income support, the position is not yet as dire as Mr Moore suggests, according to what we have been told. DHSS advised that only if the strike lasted until mid-July would a completely clerical conversion be necessary; and that even then it should be possible to start the conversion work clerically for some groups of clients (eg the unemployed) and move to computer conversion for others if the strike ended in time. Mr Moore's 3,000 staff is the

CONFIDENTIAL

extreme version, of no computer conversion at all. (The use of consultants to enable computerisation of the actual implementation of income support from next April is a new point; but we have no grounds to dispute the suggestion that it may be necessary.)

5. We suggest that you note Mr Moore's views on the action he must take, and reserve your position on the costs involved. Provided the costs are not too great, we shall probably advise that you should accept them (including possibly an increase in DHSS' running costs limit) to enable the reforms to be implemented; but there is no need to concede the point now. (The costs which have been suggested to us so far are around £0.6 million on consultants for family credit, and £18 million for income support as a result of the loss of benefit savings from switching staff away from fraud etc. As against the former cost, there might be savings from not paying those on strike, though DHSS thought that such savings would be largely offset by increased overtime by other staff or on return to work; but they are examining the point further.)

SW.

S P WILLIS
ST2

CONFIDENTIAL

DRAFT LETTER FOR THE CHIEF SECRETARY TO SEND TO

The Rt Hon John Moore MP
Secretary of State for Social Services

INDUSTRIAL ACTION IN THE CIVIL SERVICE

Nigel Lawson has noted your letter of 17 June in which you agreed the line Norman Fowler had proposed for dealing with the payment of benefits to the unemployed in the latest round of industrial action by civil servants.

2. At the end of your letter you added that there would be "a bill to pay" for the alternative arrangements which you intend to make in order to ensure the implementation of the social security reforms next April.

3. I must of course reserve my position as regards any increase in running costs which ^{you consider} might be necessary, until I have seen the full costings. I should also want to see the case for any loss of benefit savings which I understand might be involved in the redirection of 3000 staff to which you refer (if indeed none of the work on income support can be done by computers).

4. I am copying this to the Prime Minister, Norman Fowler, David Young, Malcolm Rifkind and Richard Luce.



28

c/ The unions can only strike under the campaign outlined to them when they voted. So if they want to widen the scope of the action or extend it beyond 3 July, then they must have a fresh ballot.

CE 19/6

Mark



4569
Mrs. Sallor?
Cathy
Thanks - under new TV laws, can new women - stabler first ballot?

CIVIL SERVICE PAY

Points to make

Can be no question of offering more money now:

- Allow unions to snatch victory from jaws of defeat.
- Resented by unions which have accepted offer.
- Very bad example to rest of public sector (including teachers).

2. My officials have had further discussions with unions, but clear that they wanted too much. Officials said no more money this year, but ready to discuss long-term/flexible pay deals for the future. Unions will continue existing action, but need ballot for new action: doubtful whether it will be well supported.

[- Not true that we insisted on geographical pay as part of deal; we resisted union attempts to say all ideas for geographical pay in future should be dropped.]

3. Am proposing (in minute to Prime Minister today) two steps:

- Implement payment of the offer now (in pay packets end-July).
- Take final steps to put us in position to end check-off.

4. Recognise that there are particular difficulties for some Departments (DHSS in particular, but also Customs and others). Must consider case by case what management action is appropriate.

5. Will bring forward proposals on London Weighting, geographical pay, recruitment/retention in South East for future meeting of MISC 66.

pup



FROM: A C S ALLAN

DATE: 22 June 1987

MR KEMP

cc PS/Chief Secretary
PS/Paymaster General
Sir P Middleton
Mr F E R Butler
Mr Chivers
Mr Culpin
Mr Truman
Mr Woodall

CIVIL SERVICE PAY DISPUTE

The Chancellor and the Paymaster General have discussed the timing of an announcement about the Government's decision to implement the Civil Service pay offer: they agree with you that it would be best to do this today. I should be grateful if you and Mr Culpin could set the necessary arrangements in hand. I have informed David Norgrove.

2. The Chancellor and the Minister of State discussed your draft message to staff and letter to Mr Ellis. They felt that the draft message to staff should be slightly amended, as follows:

- (i) The first sentence of the third paragraph should read "As to the future, the Treasury are ready to discuss proposals which could give people higher pay in return for ..."
- (ii) The last sentence of that paragraph should be amended so that it ends "... which would take into account among other things the pay and pay increases of other groups in the economy".



(iii) The last sentence of the fourth paragraph should be amended to read "The Treasury hope that when the present industrial action is over, similar discussions can be held with the CPSA and SCPS for the grades they represent".

3. The Chancellor and Paymaster General felt that the letter to Mr Ellis should be substantially shortened, so that it simply read:

"I attach a copy of a notice we have today sent to all members of staff, which is self-explanatory.

The reference to possible developments in the pay system, so far as it concerns your grades, follows up the proposal made to you and other Civil Service Unions in my letter of 3 March."

4. The Chancellor will want to discuss subsequent action with you later.

ACSA

A C S ALLAN



FROM: A C S ALLAN
DATE: 22 June 1987

MR KEMP

cc PS/Chief Secretary
PS/Paymaster General
Sir P Middleton
Mr F E R Butler
Mr Chivers
Mr Truman
Mr Woodall

CIVIL SERVICE PAY DISPUTE

The Chancellor was grateful for your minute of 19 June. He sees no attraction in going for a deal of the kind you describe at the present time.

A handwritten signature in dark ink, appearing to read 'ACSA', with a horizontal line underneath.

A C S ALLAN



FROM: CATHY RYDING
DATE: 22 June 1987

PS/PAYMASTER GENERAL

cc Sir P Middleton
Mr Kemp
Mr Truman
Mr L J Harris - C&E
PS/C&E

INDUSTRIAL ACTION BY COMPUTER STAFF IN CUSTOMS AND EXCISE

The Chancellor has seen Mr Harris' minute to the Paymaster General of 18 June.

2. The Chancellor is content to accept Mr Harris' advice against any attempt to bring in outside computer operators or consultants, but thinks we may need to reconsider in due course. The Chancellor wonders if there are any outsiders familiar with the Customs & Excise computers, eg from those firms who installed them.

CR

CATHY RYDING

*ps1*

FROM: A C S ALLAN
DATE: 22 June 1987

PS/PAYMASTER GENERAL

cc PS/Chief Secretary
Sir P Middleton
Mr F E R Butler
Mr Kemp
Mr Chivers
Mr Culpin
Mr Gilhooly
Mr Bell
Mr Scotter
Mr Woodall

CIVIL SERVICE PAY DISPUTE: REAL TAKE HOME PAY

The Chancellor has seen Mr Kemp's minute to the Paymaster General of 19 June. While he accepts the difficulties with these comparisons, he thinks it will still be worth making the point that Civil Servants are substantially better off now than they were in 1979 - and ~~to~~ *refuting* the union claims of very large numbers (40,000?) on supplementary benefit.

ACSA

A C S ALLAN

FINANCIAL TIMES

Civil Service leaders split on pay dispute tactics 10

BY CHARLES LEADBEATER, LABOUR STAFF

THE LEADERS of the two Civil Service unions involved in a 10-week-old campaign of industrial action over pay yesterday acknowledged that they were almost certain to split on future tactics at a crucial meeting today, intended to draw up a joint strategy to continue their campaign.

Mr John Ellis, the Civil and Public Services Association's general secretary, said he doubted whether his union would be able to agree a common approach with the Society of Civil and Public Servants.

The hard-left majority on the CPSA's executive wants to ballot the union's 149,000 members on a national strike when the current round of regional industrial action ends in two weeks' time.

Mr Leslie Christie, the leader

of the 86,000-strong SCPS, admitted it would be difficult to agree a joint approach.

"We will need convincing that going for a 'big bang' would be the right tactic. We will try to convince the CPSA that upping the regional and selective action would be more effective," he said.

Mr Ellis, a moderate within the CPSA, said a ballot on all-out strike action would be misguided, as it was likely that members would vote against it.

He said such a vote would deprive the union of any means to increase pressure on the Government.

The executives of the two unions will tomorrow decide how to separately pursue their campaign to improve the Treasury's 4.6 per cent pay offer

should no joint strategy emerge from today's meeting.

Mr Ellis dismissed suggestions that the union's executive might attempt to prevent him from discussing a long-term pay deal which could include extra payments for greater responsibility and workloads.

He said discussions with the Treasury on longer-term pay flexibility had gone too far to be stopped.

Mr Ellis insisted that the Treasury's offer would only be improved through the addition of some measure of long-term flexibility.

However, both Mr Ellis and Mr Christie were adamant that they would not sign an agreement which included merit based or geographic pay differentials.

Daily Telegraph Whitehall unions split on strike

By Our Labour
Correspondent 2

THE TWO largest Whitehall unions are split over calling an all-out national strike in their deadlocked pay dispute with the Treasury.

At vital strategy talks today, the 140,000-member Civil and Public Services Association — now led by a Militant Tendency-dominated executive — is expected to press for a national strike ballot following the collapse of talks aimed at improving a 4.25 per cent offer.

The Society of Civil and Public Servants representing 80,000 involved in the dispute, believes that such a move would result in a vote or the disintegration of the two unions' 10-week campaign of disruption.

Mr John Ellis, CPSA general secretary, has admitted it is unlikely the Government will move on the 4.25 per cent award from April 1 but still hopes there could be further talks on restructuring to provide a further rise of, perhaps, two per cent in September.

Pay differentials

However, the Treasury is likely to insist on discussing regional pay differentials and performance-related pay. These are items on which last week's talks broke down.

Another two-day stoppage is scheduled to hit customs clearance and benefit offices in Eastern Counties, South West, South Central, and London and the South-East on Thursday and Friday. The unions are seeking 15 per cent rises.

THE INDEPENDENT

Whitehall unions differ on tactics

LEADERS of the two largest Civil Service unions meet today to see if they can agree a fresh strategy for their three-month campaign of strikes. Options include balloting on an all-out strike, continuing selective strikes or accepting the Government's 4.25 per cent pay offer, which ministers say will not be increased.

Leaders of the Civil and Public Services Association (CPSA), the largest union, whose executive is dominated by the Militant tendency, will press for an indefinite national strike. But that will be resisted by the Society of Civil and Public Servants (SCPS) whose leaders favour maintaining the present action.

The unions have been warned by the Treasury that the Government is prepared to impose the pay offer without their agreement and is also considering cutting off the "check-off" of union subscriptions from salaries. That could

By David Felton
Labour Editor

have a big effect on the unions' ability to continue the action.

John Ellis, general secretary of the CPSA, who is in conflict with his Militant executive, said last night there was "a faint chance" that the unions and the Government could agree a long-term pay system to end the dispute.

Mr Ellis argued last night that an all-out strike could not be successful because the SCPS would not join in and civil servants who are not members of either union would work normally. "On the basis of only 100,000 at most on strike, the Government could keep going for years," he said.

Today's meeting will be followed tomorrow by a meeting of the CPSA executive, which will decide whether to order a ballot on an all-out strike.

purp



CHIEF SECRETARY	
REC.	23 JUN 1987
ACTION	Mr Revolta
TO	CX PMG Mr Butler
	Mr Anson Mr Gilmore
	Mr Mountfield Mr Turnbull
	Mr Chivers Mr Truman

Dear John,

QUEEN ANNE'S GATE LONDON SW1H 9AT

23 June 1987

McCropper Mr Tyrie

You will have seen reports of long delays in Passport Offices, arising mainly from industrial action during the Civil Service pay campaign.

A number of steps have already been taken to limit the effects of the problem, some with cost implications which the Home Office expects to absorb, including:

- (a) recruitment of additional casual staff;
- (b) short-term extensions of expired passports for personal callers;
- (c) asking other Governments to accept British Visitor's Passports (BVPs) and recently expired passports. So far, New Zealand and the United States have accepted these proposals, and further responses are expected;
- (d) giving priority treatment to personal callers who are due to travel; and
- (e) the use of recorded telephone messages giving basic information.

The summer months are, of course, the peak season for passport services. The backlog of work caused by the industrial action leads to much non-productive work in searching for applications in the system and dealing with dissatisfied and irate customers. There is little prospect of resuming normal service, even if the industrial action is called off in the near future, until the backlog has been cleared. This can only be achieved if pressure on Passport Offices is relieved.

The main avenue for diverting applicants is to encourage them to apply to post offices for BVPs. These are issued by the Post Office on an agency basis. The basic fee is £7.50., or £11.25 where a spouse is included. The Post Office charged Passport Department £5.23 (inclusive of VAT) per BVP issued in 1985/86; charges for subsequent years are the subject of continuing contractual negotiations. BVPs are accepted only in specified countries, mainly in Western Europe.

While a BVP may be an acceptable alternative to some travellers, those who have already lodged an application for a standard passport will, under present arrangements, normally be required to pay two fees, i.e. one for the outstanding passport application (the fee is banked on receipt) and one for the Post Office-issued BVP. To overcome this obstacle to diverting people away from Passport Offices, I would like to be able to say that we will refund the BVP fee.

Matters pertaining to passport fees are covered by the Consular Fees Act 1980 and by the Consular Fees Regulations 1981. The present fees were promulgated in the Consular Fees Order 1983. 7(e) of the 1981 Regulations gives authority to waive (or refund) fees where the Secretary of State so directs, but only with the consent of the Treasury.

The additional costs of adopting a policy of fee refunds in the circumstances outlined above are difficult to estimate, mainly because the level of take-up by the public is hard to judge. However, our best estimate is £1.25 million during 1987/88, made up as follows:

Refunds	£ 680,000
Applicants' out-of-pocket expenses..	100,000
Post Office charge	440,000
Salaries (on paying refunds)	20,000
Additional BVP stationery	10,000
	<hr/>
	£1,250,000
	<hr/>

There are considerable benefits to be gained from offering fee refunds to those who apply to post offices for BVPs whilst their passport applications are locked in the Passport Office system. The public will be receiving a more acceptable level of service with less avoidable disruption to their travel plans. The effects of the industrial action on the public will thus be reduced, and those members of staff manning the Passport Offices in these difficult times will be able to concentrate on issuing standard passports to people whose travel plans would not be covered by a BVP.

I think there is a strong case for doing this and would like our respective officials to discuss urgently how it might be achieved, and what the financial implications would be.

Werner,

D. J. M.

Good. Dept minutes ok as per sec's ASP.

20 pup

FROM: E P KEMP
23 June 1987

CHANCELLOR OF THE EXCHEQUER

*Ch
Appt for minute to
PM, see the context (Haggard)
AA*

cc Chief Secretary
Paymaster General
Sir Peter Middleton
Mr F E R Butler
Mr Gilhooly
Mr Chivers
Mr Truman
Mr Woodall

Agreed:

CIVIL SERVICE PAY DISPUTE

We have all heard the upshot of today's meetings of the National Executives of the CPSA and the Society. As predicted the CPSA are going to ballot their members for all-out strike action, though they appeared to have said in public what we all know, namely that they have little chance of getting a mandate. The SCPS, on the other hand, have agreed to "suspend" (or in some versions "end") the action pending further talks with the Treasury. In other words, the game plan which you approved this morning, set out in Mr Judge's note of 23 June, seems to have succeeded.

2. This is very satisfactory. The unions are well and truly split, with the CPSA now isolated and on a suicidal course. The SCPS on the other hand have gone back to work after some 10 weeks industrial action with nothing more than a promise of talks. It seems to me that this will have to be seen by the Press tomorrow as a victory for the Government.

3. However we must not let up. We are proceeding to implement the offer not just for the Society but also from the CPSA. We also need to move forward on check-off, just to show the CPSA that we are still in business. The line we propose IDT to take, a message to staff which we are to send out tomorrow, and background briefing for Departments are attached for your consideration.

4. You may like to minute the Prime Minister. A draft is below.

Epk

E P KEMP

DRAFT MINUTE FOR THE CHANCELLOR OF THE EXCHEQUER TO SEND TO :

PRIME MINISTER

The two civil service unions remaining in dispute with the Government have had meetings of their Executive today.

CIVIL SERVICE PAY DISPUTE

~~We have heard that at Executive meetings today important decisions were taken by the two unions in dispute relating to the future course of the action.~~

The Militant dominated CPSA have decided to continue the action and call for a ballot for all-out industrial action from some date in July. The Society, on the other hand,

have decided to suspend or in some versions end, the action pending further talks with the Treasury.

This is good news. The two unions in contention are thus well and truly split. It is most unlikely - as indeed their own people say - that the CPSA will get any mandate for further action, while it is equally unlikely that the Society would be prepared to remount industrial action now they have called it off.

~~We are now moving to put our original offer - unchanged, of course - into payment so far as the Society goes, and will also move to implement it for the CPSA. We shall also move forward on the check-off front, because that is a change worth making in its own right against future disputes, and anyway it might still be needed if against all expectations the CPSA got a mandate for further action.~~

~~I will keep you and colleagues in touch as to developments. You may feel, however, that the meeting of MISC 66 you had considered holding around the end~~

~~I understand that it has not been possible to arrange a meeting of MISC 66 for next week. But it seems to me that there are no immediate issues to be present~~

~~dispute; and~~

We have agreed to further talks, but have not reached an agreement.

This is a very satisfactory development.

There is any

Industrial
Tendency -
Industrial
Strike
any
call off
These talks are likely to lead to a revival of grading, but without any commitment to new money.
now isolated
The forthcoming ballot
should now
with
as to
both the Society and
again as agreed
the
front
against
just
all-out
continue to
with

~~of the month is not now necessary, and that~~ we can consider the question of geographical pay and related issues at some later date.

I am copying this letter to the other members of the Cabinet, the Paymaster General, the Minister of State (Privy Council Office), and ^{to} Sir Robert Armstrong.

The dispute : line to take

23/6/87

What has happened?

At the meetings of their National Executives today:

- a. the CPSA decided to ballot their members with a recommendation for all-out industrial action;
- b. the SCPS decided to suspend the industrial action pending further talks with the Treasury.

This means that the SCPS is now back in normal relations with the Government. The Treasury will renew negotiations on outstanding issues in good faith but without commitment on either side. In particular the Treasury and the SCPS will be reviewing the current grading guidance for grades represented by the Society and the introduction of new technology and new work practices. Management changes have been occurring rapidly in the civil service in recent years (changes in financial and personnel management practices and in the use of new technology) and we believe it will be worthwhile to take a closer look at these middle-range management jobs.

The Treasury remains of the view that the right way forward is to seek greater pay flexibility on the lines of the IPCS 'Flexible Pay' Agreement. It remains ready to discuss with the Society - as with other unions - the possibility of developments in the civil service pay system (including a more settled framework for future pay negotiations) which could be mutually advantageous, but it is not forcing them on unwilling unions.

The Treasury's response to these decisions?

Twofold:

1. We shall without further delay put into payment the money that has been offered to CPSA (as well as SCPS) grades - it is unfair to the majority to hold it up any longer; and
2. We are taking the initial steps to suspend check-off - the privilege of automatic collection of union dues by deduction from members' salaries - for any union still in dispute with us. No decision however has yet been taken to stop check-off.

Attitude to the CPSA?

We greatly regret the Executives' decision to continue and escalate the action. Cannot believe that it will have the support of their members. We remain ready to discuss constructively with them, as we are doing with certain other unions, developments in the pay structure and pay determination system on a basis which could be mutually advantageous but not while industrial action is in progress.

Attitude to the Society?

Welcome their decision. Common sense has broken out, and we are back to discussing business in the normal way.

Will the Society get more money out of the proposed review?

There is no commitment to more money. The first step is the review. If it shows that the jobs of ^{some} SCPS members have become significantly more demanding and more responsible in recent years that would be something that would be tabled for negotiation.

Has the Government backed off performance pay/regional pay?

Not at all. The Government has all along said that it was prepared to discuss with other unions the possibility of developments on the lines of the IPCS 'Flexible Pay' Agreement: other unions are in discussion about it and the Government believes that it is the right pattern for the future.

What about the Society's "relativities" claim?

We took account of the Society's claim in the offer made to them, which they have now accepted. We believe that a review of the grading guidance is now the best way forward. We need to look at how far the same sort of job changes which were identified in the CODP review have impacted on the Executive Grades. But there have been other changes affecting management at the same time, and the "relativities" approach is too simple and too mechanical.

MESSAGE TO STAFF**PAY**

All the non-industrial unions, except for the CPSA and the SCPS, have now accepted this year's pay offer. For most staff this was based on 4¼% or £5.75 per week (whichever was better) for adults, and £3 per week for those under 18, but many grades receive more than this.

The SCPS have suspended industrial action pending further talks with the Treasury. The CPSA will be balloting their members on all-out industrial action.

There is no question of the offer being improved, and the new rates are already being paid, or are in course of being paid, to all staff in grades represented by the unions which have accepted them. Arrangements are now being made to implement the offer for SCPS grades. So far as the CPSA is concerned, of the 195,000 staff in grades they represent - not all of whom are union members - only 49,000 voted in the recent ballot for continued industrial action. It is not reasonable that this minority of people should continue to prevent the majority who did not reject the offer from receiving their increases. Accordingly steps have been taken to put these into payment. All staff should therefore receive the new rises, together with back-pay from 1 April, by the end of July.

✓ ^ For the future, the Treasury is ready to discuss arrangements which could give people higher pay on account of their skills or responsibilities, their performance or the fact that they work in areas of special difficulty. These arrangements could also provide for more settled pay negotiations in the future, which could take into account among other things the pay rates and pay increases of groups outside the civil service.

CIVIL SERVICE PAY DISPUTE

BACKGROUND

The offer

- 4¼% or £5.75 a week (whichever is greater) increase in pay rates (or £3 a week for staff under 18) w.e.f. 1 April; cost is 4.6 per cent.
- further increases in September for SCPS members worth around 1-2 per cent reflecting restructuring of SEO, HEO and EO pay scales.
- improvements in the rate at which staff reach their maximum annual leave entitlement;
- an invitation to discuss new and more flexible pay arrangements.

All unions except CPSA have now settled. IPCS and POA/SPOA have concluded separate agreements and IRSF and FDA are discussing new flexible pay arrangements. Separate talks are also to take place with the SCPS (see below).

X
The offer was rejected at ballots at the end of March, and industrial action ensued. Talks at Treasury on 15 and 16 June failed to reach agreement. Treasury made it clear throughout that there was no question of increasing the ^{offer} ~~basic increases~~ w.e.f. April, and that the way through was to build on earlier suggestions for new pay structures and pay determination arrangements. CPSA were interested in new pay spine but wanted to rule out geographical differentials and weaken link to performance. CPSA says industrial action will continue and executive committed to all-out strike.

London Weighting/Geographical Pay

In parallel with its pay offer the Treasury offered a 4¼% increase in London Weighting and put the unions on notice that it would be bringing forward proposals on pay in relation to recruitment and retention variations from one locality to another. No settlement on London Weighting reached as yet.

Industrial Action - background note

CPSA and SCPS, who have in membership some 73% of the 302,000 staff in question (together with the Northern Ireland Public Services Alliance), rejected the offer by 79,000 to 48,000, and started a 6 week programme of selective industrial action and all out 2 day strikes in 6 regions last April. Support was patchy. 120,000 civil servants took part with the loss of about 320,000 man days, but industrial action had a fairly limited effect on the Government other than to cause inconvenience. Exceptions were computer development work on social security reforms while continuing industrial action at the VAT computer at Shoeburyness has affected both VAT collection and payments and the production of trade statistics. Main impact has been on the public, in particular on benefit claimants.

CPSA and SCPS - NIPSA having voted against further strike action - voted by 70,000 to 52,000 for continued rejection of the offer and started a second phase of industrial action in June - an all out national strike on 8th and 9th to which just under 100,000 civil servants responded each day, together with some air traffic controller assistants who are not civil servants - and all out action for 2 days in successive weeks in each of 3 regions. Scotland and North East was hit on 18th and 19th but response was only 47% of grades concerned - less than previously. London, South East and West targetted this week; North West and Midlands and Wales on 2 and 3 July but SCPS is calling this action off. During the campaign there has been some continuous selective action at the VAT computer centre and at the Passport Offices. Lightning strikes by Customs officers at largely southern ports have stopped. Staff at the Livingston computer centre have also returned to work.

A further development has been the recent election in the CPSA which has replaced a mainly moderate executive with one dominated (18 out of 29) by Militant Tendency, including the Deputy General Secretary, Mr Macreadie.

Position of the SCPS?

At meeting on 23 June, Executive decided to call off further industrial action.

This means that the SCPS is now back in normal relations with the Government. The Treasury will renew negotiations on outstanding issues in good faith but without commitment on either side. In particular the Treasury and the SCPS will be reviewing the current grading guidance for grades represented by the Society and the introduction of new technology and new work practices.

The Treasury remains of the view that the right way forward is to seek greater pay flexibility on the lines of the IPCS 'Flexible Pay' Agreement. It remains ready to discuss with the Society - as with other unions - the possibility of developments in the civil service pay system (including a more settled framework for future pay negotiations) which could be mutually advantageous.

CIVIL SERVICE PAY

Q Offer unfair?

A Do not agree. Offer is reasonable. Many staff stand to receive more than the core 4¼% increase.

Q Low Pay?

A Offer with underpinning of £5.75 helpful to lower paid. [Not true that 40,000 civil servants receiving Family Income Supplement; not more than 4,000 qualify for FIS and probably only 2000 receive it.]

Q Dispute over "better" Civil Service not pay?

A No - the unions balloted members on question of pay offer. If concerned about loss of long term pay system, open to CPSA to accept Government's proposals to discuss new long term pay arrangements as other unions are doing.

Q Vote for strike?

A Important to note that pay offer rejected by only about 25% of grades represented by CPSA or 35% of membership.

Q Response/turnout?

A Response has varied from department to department. Majority of Civil Service working normally. Union claims about strength of support often much exaggerated.

Q Effect on public?

A Strikes have had most impact on social security and unemployment benefit offices, which means the unemployed and socially disadvantaged have been hardest hit. Passport offices and customs also hit. Inconsistent with unions' claim to be concerned about service to the public.

Q Cost to Government?

A No significant impact on public finances.

Q Imposition of pay offer?

A Unreasonable that the pay of 195,000 individuals, many of whom are not union members, should be held up because 49,000 have voted for industrial action. No point in delaying implementation any longer. Hope to achieve pay-out by end-July.

Q Geographical pay?

A Government will be bringing forward new proposals at appropriate time.

Q CPSA Militant Tendency?

A The representatives the union members choose is a matter for them. [Only if pressed: regret any politically motivated industrial action which might be taken.]

Q Will the Society get more money out of the proposed review?

A There is no commitment to more money. The first step is the review. If it shows that the jobs of SCPS members have become significantly more demanding and more responsible in recent years that would be something that would be tabled for negotiation.

Q Why pay extra for productivity improvements which are taken for granted in the private sector?

A We believe it is worthwhile at this time to run a check on just how these middle-range management jobs may have changed in recent years. There is no presumption that their pay is wrong, but management changes have been occurring rapidly in the civil service (changes in financial and personnel management practices and in the use of new technology) and it is worth taking a closer look.

Q Has the Government backed off performance pay/regional pay?

A Not at all. The Government has all along said that it was prepared to discuss with other unions the possibility of developments on the lines of the IPCS 'Flexible Pay' Agreement: other unions are in discussion about it and the Government believes that it is the right pattern for the future.

Q What about the Society's "relativities" claim?

A We took account of the Society's claim in the offer made to them, which they have now accepted.

Q Attitude to the CPSA?

A We greatly regret the Executive's decision to continue and escalate the action. We remain ready to discuss constructively with them, as we are doing with certain other unions, developments in the pay structure and pay determination system on a basis which could be mutually advantageous, but not while industrial action is in progress.

Q Attitude to the Society?

A Welcome their decision. Common sense has broken out, and we are back to discussing business in the normal way.

Check-off - briefing points

What is check-off?

The automatic payment of members' subscriptions to a union through deductions by the employer from monthly or weekly salaries.

What is proposed?

We are warning unions that we may wish to suspend check-off for those (and only those) taking industrial action for the duration of such action; no decision has yet been taken to do so.

Unions not taking industrial action?

Unions which are not taking industrial action have nothing to fear - check-off will remain in place for them. [NB this point should be stressed.]

Why do it now?

The unions were warned in 1982 and 1983 that management reserved the right to withhold the facility in whole or in part from any union whose members were officially involved in industrial action for as long as this continued. Two unions are currently taking industrial action aimed at preventing the conduct of Government business; when a large number of claimants are not receiving their benefits, that it seems unreasonable to use public funds and resources to assist the unions in maintaining their cash flows.

Has a date been fixed to stop check-off?

No. The unions have been consulted about our proposals. The timing will depend on the duration of industrial action.

Will new mandates be needed or will check-off be renewed automatically?

Academic - no decision yet taken on suspension.

More union bashing?

Nothing of the sort. Reasonable response not to help striking unions maintain their cash flows.

Why not just stop check-off?

Check-off arrangements have been in existence for many years. Reasonable to give them notice of what we might do so that they can consider the position.

Industrials?

Being considered separately.

CONFIDENTIAL



FROM: S P JUDGE
DATE: 23 June 1987

PAYMASTER GENERAL

MR KEMP

cc PS/Chancellor
PS/Chief Secretary
Sir Peter Middleton
Mr F E R Butler
Mr Gilhooly
Mr Chivers
Mr Truman
Mr Woodall

CIVIL SERVICE PAY DISPUTE

This note records the main decisions reached at the meeting the Paymaster General had this morning with Sir Peter Middleton, Mr F E R Butler and yourself.

It was agreed that in return for an end to strike action, the SCPS would be offered positive discussions on any outstanding issues - in particular grading guidance on the CPSA/SCPS border. The Treasury would make clear that it wished to continue discussions on an IPCS-type deal, but would not force it down the unions' throats. The award would be put into payment, and the Government would proceed to the next stage of check-off consultations.

It was agreed that IDT would undertake active press briefing once the outcome of the union executives' meetings was known. They would make it clear that, although full and positive discussions would occur on the outstanding issues, there was no question of a stitch-up behind the scenes with the Society. You would make this clear to Mr Christie when you telephoned him.

If the strategy worked, the CPSA would be isolated. They were short of cash, even before termination of check-off, the Treasury would not negotiate with them and they would probably lose their ballot on all-out strike action.

The Paymaster General subsequently spoke to the Chancellor by telephone. The Chancellor was content with the proposed action,

CONFIDENTIAL

and thought it was a very considerable improvement on some earlier options. He was concerned *about* the implications for those unions who have already settled: the Paymaster stressed that the Treasury would be briefing on the positive aspects of the settlement. The Chancellor said that there should be no question of a negotiation between the Society executive and the Treasury over the precise terms of the future negotiations over grading etc. He also added that, if the Society were to press on with a strike ballot, the offer should be put into payment immediately anyway.



S P JUDGE
Private Secretary

CONFIDENTIAL



FROM: S P JUDGE
DATE: 23 June 1987

File
ppj

PAYMASTER GENERAL

PRINCIPAL PRIVATE SECRETARY

cc PS/Chief Secretary
Sir Peter Middleton
Mr F E R Butler
Mr Kemp
Mr Chivers
Mr Culpin
Mr Bell
Mr Scotter
Mr Woodall
Mr Gibson (*)
(*with earlier papers)

CIVIL SERVICE PAY DISPUTE: REAL TAKE HOME PAY

The Paymaster General has seen your minute of 22 June to me. His own view is that this ammunition is much better kept dry in a locker, unless the union claims of very large numbers on Supplementary Benefit surfaces again.

I spoke to Mr Gibson about this latter point yesterday. Mr Lyell's minute of 7 May to the Prime Minister (copy attached) says that no more than 4,000 non-industrial civil servants would qualify for FIS. As SB is only paid to those out of work, the unions' claim of 40,000 people being on SB is patently false. Mr Gibson thought this figure might refer to the number below the "poverty line" (SB level + 40 per cent), or to the number of civil servants on Housing Benefit. I will be grateful if Mr Gibson could provide a definitive analysis of the situation, as the Paymaster may find himself appearing on the media at short notice.

SPJ

S P JUDGE
Private Secretary

M/S - 8 MAY 1987 - 2

✓ AB
9/5

PRIME MINISTER

CIVIL SERVICE PAY STRIKE: FAMILY INCOME SUPPLEMENT BRIEFING NOTE

The facts on civil servants receiving Family Income Supplement are:-

- No more than 300 DHSS staff are receiving FIS: the precise number is 286 - out of over 95000 at 1 April 1987.
- No more than 4,000 non-industrial civil servants might even qualify for FIS and of those no more than 2000 are likely to be receiving it.
- The total number of people receiving FIS in the whole public sector is 27,000.
- The Unions have claimed that 100000 civil servants earn less than £100 per week. The Treasury estimate that as a result of the pay offer there would be about 3000 civil servants, virtually all juveniles, earning less than £100 a week.

Background

A total of 202,000 are receiving Family Income Supplement. The take-up rate is estimated to be 50% of those eligible. It is estimated that there will be 400,000 receiving Family Credit after its introduction, assuming the published estimate of a 60% take-up rate.

I am copying this note to Nigel Lawson, David Young, Richard Luce and Robert Armstrong.

Nicholas Lyell

NICHOLAS LYELL

CH/EXCHEQUER	
REC.	07 MAY 1987 ⁷¹⁵
ASSIGN	MR KEMP
COPIES TO	CJT MJT
	SIR P. MIDDLETON
	MR PER OUTIER
	MR LUKE
	MR KIRTON
	MR GILBERT
	MR THURMAN
	MR HODDALL
	MR CROFT

FROM : R J T WATTS
DATE : 23 JUNE 1987

Alow
pay

PS/ PAYMASTER GENERAL

cc PPS

Sir Peter Middleton
Mr FER Butler
Mr Kemp
Miss Peirson
Mr McIntyre
Mr Chivers
Mr Culpin
Mr Bell
Mr Scotter
Mr Woodall
Mr Gibson

CIVIL SERVICE PAY DISPUTE: REAL TAKE HOME PAY

I have discussed the queries raised in your minute of 23 June with DHSS:

a. Supplementary Benefit is not payable to people in full time work (more than 30 hours a week). So, a claim that any sizeable number of civil servants are receiving supplementary benefit is most unlikely.

b. Standard Housing Benefit is available to civil servants as to others in full time employment. At November 1986 figures, a one child family paying a rent of £15.40 a week would be eligible for a rent rebate on an income up to £126 a week. A similar family paying rates of £6.20 a week would be eligible for a rate rebate on an income up to £120 a week. Housing benefit is administered by local authorities and we have no access to disaggregated statistics. It is clear however that a single administrative officer living in a bedsit in London might well be eligible for housing benefit.

c. Family Income Supplement is well covered in Mr Lyell's minute to the Prime Minister.

d. "Poverty line". We have also considered the possibility that the unions might argue that a substantial number of civil servants fall below the "poverty line". The Child Poverty Action Group at the end of last year claimed that more than 16 million people in Britain were living "in or on the margins of" poverty defined as "below or no more than 40% above supplementary benefit". On this definition a home owning couple with two children on £10,250 a year could be said to be in poverty.

The Government has never accepted that the supplementary benefit level provides a definition of poverty, not least because poverty would rise each time supplementary benefit was increased. The CPAG's formula of supplementary benefit + 40% as the margin of poverty was unsympathetically received not least by traditional supporters of the poverty lobby such as "New Society" who described it as "counter to common sense" and the "Guardian" who called it "perverse".

R. Watts

R J T WATTS



purp

Ch

You will want to
speak to this.

AA

—

Thurs:

23/6/87



Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

PRIME MINISTER

CIVIL SERVICE PAY DISPUTE

The two civil service unions remaining in dispute with the Government both held meetings of their Executives today. The Militant Tendency-dominated CPSA decided to continue their industrial action and call for a ballot for an all-out strike from some date in July. The Society, on the other hand, have decided to call off their industrial action pending further talks with the Treasury. These talks are likely to lead a review of grading, without any commitment to new money.

This is a very satisfactory development. It is most unlikely that the now isolated CPSA will secure the endorsement of its members in the forthcoming ballot, while it is even more unlikely that the Society would be prepared to remount industrial action once they have called it off. It is Society members' whose action has caused the main problems at DHSS and Customs Computer Centres, and that will now cease.

As we agreed, we are now moving to put our original offer - unchanged - into payment for both the Society and the CPSA. We shall also move forward, again as agreed, on check-off: this is a change worth making in its own right should there be any future disputes, and it might still be needed now if - against all expectations - the CPSA got a mandate for all-out action.

I will continue to keep you and colleagues in touch with developments. I understand that it has not been possible to arrange a meeting of MISC66 for next week. But it seems to me

CONFIDENTIAL



that there are no immediate issues to discuss so far as the present dispute is concerned; and we can consider the question of geographical pay and related issues at some later date.

I am copying this letter to the other members of the Cabinet, the Paymaster General, the Minister of State (Privy Council Office), and to Sir Robert Armstrong.

N.L.

N.L.

23 June 1987

pwp



FROM: A C S ALLAN
DATE: 24 June 1987

MR KEMP

cc PS/Chief Secretary
PS/Paymaster General
Sir P Middleton
Mr F E R Butler
Mr Chivers
Mr Culpin
Mr Gilhooly
Mr Truman
Mr Woodall

CIVIL SERVICE PAY DISPUTE

The Chancellor was grateful for your minute of 23 June, and ... congratulates you on the successful outcome. I attach a copy of the minute he has sent to the Prime Minister.

2. He was content with the line for IDT, subject to changing the second sentence of the final answer on page 2, so that it reads "... the jobs of some SCPS members ...". He is content with the draft message to staff. There is one amendment he would wish to see to the background briefing: this is to change the third sentence of the second full paragraph to read "Treasury made it clear throughout that there was no question of increasing the offer".

A handwritten signature in dark ink that reads "ACSA".

A C S ALLAN



Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

PRIME MINISTER

CIVIL SERVICE PAY DISPUTE

The two civil service unions remaining in dispute with the Government both held meetings of their Executives today. The Militant Tendency-dominated CPSA decided to continue their industrial action and call for a ballot for an all-out strike from some date in July. The Society, on the other hand, have decided to call off their industrial action pending further talks with the Treasury. These talks are likely to lead a review of grading, without any commitment to new money.

This is a very satisfactory development. It is most unlikely that the now isolated CPSA will secure the endorsement of its members in the forthcoming ballot, while it is even more unlikely that the Society would be prepared to remount industrial action once they have called it off. It is Society members' whose action has caused the main problems at DHSS and Customs Computer Centres, and that will now cease.

As we agreed, we are now moving to put our original offer - unchanged - into payment for both the Society and the CPSA. We shall also move forward, again as agreed, on check-off: this is a change worth making in its own right should there be any future disputes, and it might still be needed now if - against all expectations - the CPSA got a mandate for all-out action.

I will continue to keep you and colleagues in touch with developments. I understand that it has not been possible to arrange a meeting of MISC66 for next week. But it seems to me

CONFIDENTIAL



that there are no immediate issues to discuss so far as the present dispute is concerned; and we can consider the question of geographical pay and related issues at some later date.

I am copying this letter to the other members of the Cabinet, the Paymaster General, the Minister of State (Privy Council Office), and to Sir Robert Armstrong.

A handwritten signature in dark ink, appearing to be "N.L.", written in a cursive style.

N.L.

23 June 1987



FROM: PAYMASTER GENERAL

DATE: 24 June 1987

PAYMASTER GENERAL

MR WESTON - C&E

cc Chancellor
Sir Peter Middleton
Mr Kemp
Mr L J Harris - C&E
PS/Customs & Excise

INDUSTRIAL ACTION IN CUSTOMS AND EXCISE

I have seen reports of the outstanding efforts being made by management teams in Customs and Excise to reduce delays and other inconvenience to members of the public and traders to a minimum during the current spell of industrial action. I am full of admiration for the remarkable results being achieved by those concerned, and I should be grateful if you would pass on to them my personal thanks and those of the Government for their hard work and dedication at this difficult time.

Peter Brooke

PETER BROOKE

CONFIDENTIAL

ppp



FROM: S P JUDGE
DATE: 24 June 1987

PAYMASTER GENERAL

MR R J T WATTS

cc **PPS**
PS/Chief Secretary
Sir Peter Middleton
Mr F E R Butler
Mr Kemp
Miss Peirson
Mr McIntyre
Mr Chivers
Mr Culpin
Mr Bell
Mr Scotter
Mr Woodall
Mr Gibson

CIVIL SERVICE PAY DISPUTE: REAL TAKE HOME PAY

The Paymaster General has seen your note of 23 June, and has commented that the powder is so far still dry.

SPJ

S P JUDGE
Private Secretary



I have drafted
short letter;
draft letter;
+ sketch
N staff
manager...

Ch

P Kemp suggest announcing
implementation of CS ^{Per (a)}
pay deal today. This ^{also}
seems sensible:

Curp
(b) info
+ (b) info
N. 10.

- (1) it will help ^{PMG} ^{of} ^{Newsnight} tonight
- (2) it is a preemptive
stroke @ union meetings
tomorrow.

But I suggest draft
pursuing A drafts below
— see separate note below.

AA



Ch

I'm increasingly concerned
at what P Kemp is up to.
It is now clear that he wants
to do a deal - even after
present offer is implemented &
strike collapses - under which
all (?) staff get more pay
this year as part of a new
'flexible pay' deal. I said
to him this was not something
I thought you had ever agreed
to, but he claims it is
implicit in his mandate to
negotiate a 'flexible pay'.

See press cuttings below,
and also draft message to staff on

letter to Ellis.

I had a word with PEM,
who was equally surprised,
and will talk to P Kemp.

P Kemp

AA

DRAFT LETTER FOR MR KEMP TO SEND TO :

J Ellis Esq
General Secretary
Civil and Public Service Association
215 Balham High Road
London SW17 7BN

[Also Society?]

1987 PAY

I attach a copy of a notice we have today sent to all members of staff, *which is self-explanatory.*

~~The reference to possible developments in the pay system, so far as it concerns your grades, follows up the proposal made to you and other Civil Service unions in my letter of 3 March. In more detail we would envisage a system which would include the following features :-~~

- ~~a. A common pay spine for most or all of your grades [with upward pay adjustments as necessary as people are assimilated onto the spine.]~~
- ~~b. A system of performance and responsibility pay, designed to give appropriate rewards to staff who carry out onerous duties with distinction over a sustained period.~~
- ~~c. A system for adjusting the position of particular groups of staff on the pay spine to deal with problems of recruitment and retention in line with operational criteria to be agreed with you.~~

What does this mean?

d. Simplified arrangements for starting pay on promotion.

These could all be introduced as soon as full agreement had been reached on all the necessary details, and our aim would be to do this [before the end of this calendar year.]

In addition, we would propose a structured approach to pay determination in the longer-term which in the context would take account amongst other things of pay levels and pay movements elsewhere. Provided full agreement could be reached on this, we would expect it to be in operation starting with the April 1989 pay review. Meanwhile, the spine which we had agreed would not be revalued at April 1988, and the pay review at that date would take the form of the advancement of everyone involved by one spine point, unless it were otherwise agreed between us in the light of exceptional circumstances.

These are outline suggestions, and we hope very much the present industrial action will cease so that we can take them forward in negotiation with you, for the benefit both of your members and of ourselves.

DRAFT MESSAGE TO STAFF

CIVIL SERVICE PAY 1987

Except for the CPSA and the SCPS, all the other non-industrial unions have accepted this year's pay offer. This was based on 4¼ per cent or £5.75 per week, whichever was better, for adults, and £3 per week for juveniles; but many grades receive more than this. For example an AO on the maximum would get £7,247 from 1 July 1987, an increase of 6.7 per cent; while an HEO on the maximum would get £12,650 from 1 September 1987, an increase of 5.9 per cent.

do we want to highlight this?

There is no question of these offers being improved, and they have been put into effect for grades represented by the unions who have accepted them. So far as the CPSA and SCPS go, of the 300,000 staff in grades they represent - many of whom are not union members - only 70,000 voted in the recent ballot for continued industrial action. It is not reasonable that this minority of people should continue to prevent the majority who did not reject the offer from receiving their increases. Accordingly steps have been taken to put these into payment. All those in grades represented by the CPSA and the SCPS should therefore receive the new rises, together with back pay from 1 April, at the end of July.

As to the future,
~~Everyone would welcome a better pay system.~~ The Treasury are ready to discuss proposals which ~~would~~ ^{could} give people higher pay in return for allowing Departments to pay staff in the same grade differently on account of their special skills, their performance, or the fact that they work in areas where Departments are finding it difficult to retain suitable staff. These proposals would include arrangements for more settled pay negotiations in the future, which would take into account amongst other things ~~of~~ the pay and pay increases of other ^{groups} people in the economy.

This way forward would benefit everyone and other Civil Service unions are interested. The Treasury hope ~~very much~~ that when the present industrial action is over ~~the~~ similar discussions can be held with the CPSA and the SCPS ~~which lead to real improvements all round~~ ^{the} for grades they represent.

?? Who is "people"? The implies all people get more, which may not be idea at all.

3



FROM: N WILLIAMS
DATE: 25 June 1987

MR E GREEN IR

cc PS/Chancellor
PS/Chief Secretary
PS/Economic Secretary
PS/Paymaster General
Mr Cropper
Mr Tyrie
Miss Sinclair
Mr Culpin
PS/C&E
PS/IR

VAT COMPUTER, SOUTHEND; INDUSTRIAL ACTION

1. The Financial Secretary was grateful for your minute of 23 June, the contents of which he has noted.

NIGEL WILLIAMS
(Assistant Private Secretary)

CONFIDENTIAL



PAYMASTER GENERAL

Board Room
H M Customs and Excise
King's Beam House
Mark Lane London EC3R 7HE

Papers
RSP

Handwritten notes in red ink:
I am planning
to see
of Y. ✓
X

FROM: A W RUSSELL
DATE: 26 June 1987

cc Chancellor ✓
Sir Peter Middleton
Mr Kemp

INDUSTRIAL ACTION BY COMPUTER STAFF IN CUSTOMS AND EXCISE

1 Mr Harris will be minuting about the immediate outlook on industrial action in the Department generally in the light of the decisions by the unions' executives on Tuesday evening. We hope that full computer operations will resume at Shoeburyness on Monday (29 June).

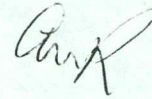
2 Meanwhile as it is in my area of responsibility I comment on the question raised by the Chancellor on whether any outside organisations familiar with Customs and Excise computing could in the event of further disruption take over the work of C&E operators and computer support staff. (Cathy Ryding's minute of 22 June refers).

3 International Computers Limited (ICL) supply virtually all of the computers and other equipment concerned and their staff are familiar with the machines and the "system" software required to operate them. They are not however familiar with the various "applications" software (programs) and it requires combined expertise to run the systems properly. Even therefore if suitable ICL staff could be readily made available (and that is doubtful because they are heavily engaged in testing and delivering machines on order to other customers) they would require several weeks to understand the workings of our various applications - especially in a situation where none of our own experts would be willing to give briefing. In the short term therefore if further disruption were to occur our advice would remain as

CONFIDENTIAL

X | provided by Mr Harris on 18 June. Nevertheless we are continuing to explore ad hoc methods of putting key pieces of work outside as a contingency against the possibility of any recurrence of industrial action in the near future.

Y | 4 For ^{the} longer term, we are reviewing the Department's IT strategy in the light of recent events to see what possibilities might exist for reducing our vulnerability on our key operational systems. We hope to present at least our initial thoughts on this to you before the summer recess.



A W RUSSELL

Internal circulation: Chairman, Mr Knox, Mr Harris,
Mr Paynter

26/6/87



CH/EXCHEQUER	
REC.	26 JUN 1987 ✓ 24/6
ACTION	PMG
COPIES TO	

MO 20/17/6L

Handwritten notes:
 If - an !
 please - X is
 correct, this
 must be
 done for
 a copy to
 Mr Y
 ASAP.

CHANCELLOR OF THE EXCHEQUER

CIVIL SERVICE PAY DISPUTE

Thank you for sending me a copy of your minute dated 18th June to the Prime Minister.

2. I agree with your view that the pay settlement should now be imposed. It is regrettable that agreement could not be reached but the signs are that the campaign of industrial action is losing impetus, apart from the diehards. I also agree that we should take the necessary steps to place ourselves in a position to stop check-off of civil service trade union dues if industrial action continues.

3. But we should not delude ourselves that imposition will be the end of the matter and that the problem will now go away. A quarter of the workforce took positive action and that is quite bad enough. With earnings outside rising at 7%, there is a deep-seated sense of grievance among most civil servants who do not think that they are being treated fairly. Most grades are worse off in real terms than they were in 1979, in sharp contrast to the rise in real earnings

X



elsewhere. We do not want a public service with low morale, a high and expensive turnover, and a reputation and growing taste for industrial action.

4. I welcome the various current initiatives on pay, including the latest proposals on geographical variation. We have made an important start in introducing a flexible ordered pay system for engineers and scientists. Our aim must be to work out a similar basis for the generality of the service, who I believe will welcome signs of such positive progress. In this matter I do not believe that the CPSA and SCPS, obsessed as they are with their political in-fighting, are truly representative of the majority of moderate-minded civil servants.

5. I am sending copies of this minute to other members of the Cabinet, the Paymaster General, the Minister of State (Privy Council Office) and to Sir Robert Armstrong.

Ministry of Defence

26 June 1987

Q4.

26/6/87

pub

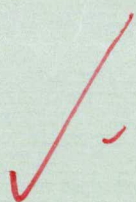


FCS/87/140

CHANCELLOR OF THE EXCHEQUER

CH/EXCHEQUER	
REC.	29 JUN 1987
ACTION	Mr Kemp
COPIES TO	CST pmc Sir P Middleton Mr FER Butler Mr Anson Mr Luce Mr Chivers Mr Gilhooly Mr Truman Mr Graham Mrs Harrop Mr Woodall Mr Cropper

6



Civil Service Pay Dispute

1. Your minute of 18 June to the Prime Minister, and her reply the next day, invited colleagues' views on two further measures you propose to take.
2. I agree that we should implement the present pay offer, to be paid at the end of July. With three Unions having already agreed the pay offer and some of their members due to be paid at the end of July, there is every reason to implement the pay award for SCPS and CPSA members. Indeed, some SCPS members will receive the award at the end of July in any case, since they are in grades for which the FDA is the main negotiator.
3. On automatic check-off, there is no separate agreement between the Official and Trade Unions Sides of the Diplomatic Service Whitley Council: the arrangements at national level therefore apply. I agree that the

CONFIDENTIAL



necessary preparatory arrangements should be made to enable the check-off facility to be applied as soon as possible after Ministers so decide. But we have a technical difficulty on timing: our computer needs to receive instructions by 7 July if July salaries are to be affected.

4. I am copying this minute to other members of the Cabinet, the Paymaster-General, the Minister of State (Privy Council Office) and to Sir Robert Armstrong.

A handwritten signature in black ink, consisting of a stylized 'G' followed by a series of loops and a final flourish.

(GEOFFREY HOWE)

Foreign & Commonwealth Office
26 June 1987

CONFIDENTIAL

CONFIDENTIAL



FROM: CATHY RYDING

DATE: 29 June 1987

PS/PAYMASTER GENERAL

cc: CST
Sir P Middleton
Mr F E R Butler *mr kemp*
Mr Chivers
Mr Culpin
Mr Gilhooly
Mr Trueman
Mr Woodall

CIVIL SERVICE PAY DISPUTE

The Chancellor has seen the Secretary of State for Defence's letter of 26 June.

2. If - as the Chancellor believes - the comment in paragraph 3 that most grades are worse off in real terms than they were in 1979 in sharp contrast to the sharp rise in real earnings elsewhere, is untrue, then this must be pointed out in his reply to Mr Younger as soon as possible.

CR

CATHY RYDING

FROM: CATHY RYDING RD

DATE: 29 June 1987

PS/PAYMASTER GENERAL

cc: Sir P Middleton
Mr Kemp
Mr Russell - C&E
PS/C&E**INDUSTRIAL ACTION BY COMPUTER STAFF IN CUSTOMS AND EXCISE**

The Chancellor has seen Mr Russell's minute to the Paymaster General of 26 June.

2. The Chancellor was pleased to note that Customs are continuing to explore ad hoc methods of putting key pieces of work outside as a contingency against the possibility of any recurrence of industrial action in the near future. He was also pleased to note that for the longer term, Customs are reviewing the Department's IT strategy in the light of recent events to see what possibilities exist for reducing their vulnerability on key operational systems.

CR

CATHY RYDING

22

FROM: E P KEMP
30 June 1987

MR GILHOOLY

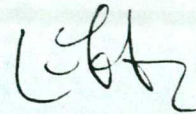
cc Principal Private Secretary
PS/Chief Secretary
PS/Paymaster General
Sir Peter Middleton
Mr F E R Butler
Mr Chivers
Mr Culpin
Mr Truman
Mr Woodall

CIVIL SERVICE PAY DISPUTE - LETTER FROM MOD

I think that perhaps PS/Paymaster General will welcome advice from Pay 1 on the point made in Mr Younger's letter of 26 June picked up by the Chancellor in Mrs Ryding's note of 29 June about changes in real terms in Civil Service pay as compared with earnings elsewhere. The difficulty is that there is no way of finding any unique truth in this matter. I am sure we can show that civil servants as a whole, including the industrials and on an earnings as opposed to settlements basis, are better off in real terms (judged against the RPI) than they were in 1979. The same probably goes if we measure only settlements, although there a lot depends on the base line. The difficulty is that there may be one or two grades, who have had low settlements and who are not susceptible to overtime and other "drift", who can be shown to be "worse off". But there must be only a tiny number of these, if indeed there are any at all. Mr Younger's phrasing certainly exaggerates any problem, and it must be right that the real position be pointed out just as soon as possible. The fact that Civil Service earnings have gone up more slowly than earnings elsewhere is of course neither here nor there; we do not believe in comparability of this sort, and anyway civil servants started from a base that was too high which it was our job to reduce.

2. Turning to paragraph 4 of Mr Younger's note, I am glad to say that I gather from MOD officials that this is not some kind of hint that we should impose an IPCS-type deal on the SCPS and the CPSA. Apart from

being a futile process, and wasteful, we have just said rather publicly that we will not try to do this. On the other hand if Mr Younger means that we should continue to work towards such deals, in effect persuading the members that these are good things and that they should take no notice of their bosses, then this is clearly right and we should try to go in that direction.



E P KEMP

CONFIDENTIAL

1. MR KEMP
2. PAYMASTER GENERAL

FROM: J F GILHOOLY
FROM: 1 July 1987

Ch
*This is (as usual) infuriatingly
vague about costs etc. But seems
sensible subject to that.*

AA

*What
is
sure
anxious
proposal
? hick's*

cc. **Chancellor of the Exchequer**
Chief Secretary
Sir P Middleton
Mr F E R Butler
Mr Anson
Mr Luce
Mr Chivers
Mr Truman
Mr Graham
Mrs Harrop
Mr Cropper

CIVIL SERVICE PAY: CPSA AND SOCIETY: DEVELOPMENTS

1. This note reports on the meetings we had yesterday afternoon with members of the CPSA Executive; and yesterday evening with the Society. The latter raised issues which could involve some tricky steering over the next week or so. (Neither incidentally has been picked up in the Press).

CPSA

2. This meeting was at the CPSA's request, and we made it clear to them that we met on the basis that we were always willing to hear what they had to say to us; but there was no question of substantive negotiation while they were pursuing strike action.

3. They fielded a team of five: three "moderates" in CPSA terms (John Ellis, the General Secretary; Marion Chambers, their president; and Kate Losinka) and two Militant Tendency supporters - one of them McCreddie - representing the great majority of current CPSA executive. Their reasons for seeking the meeting were, we suspect, a combination of the Militants wish to lay it on the line for the Treasury; and the moderates' wish to confirm that the Treasury position was as reported to the Executive by the General Secretary.

4. For our part, apart from hearing what they had to say, we took the opportunity of making clear to them that the last message to staff (attached)

was where we stood and would continue to stand. For their part, MacCreadie made it crystal clear that they intended to go ahead with the remainder of the programme of selective action, and the all out strike ballot, and they would only call off the action if the offer was improved. ("£2 more a week" he said "would not be enough"). At a technical level, we spent some time explaining pay spines the other features which were part and parcel of the in the IPCS deal.

5. So far as the industrial action is concerned, the meeting is unlikely to change anything. But it confirmed for us the intransigence of the Militant executive; and it left them in no doubt of the Government's position.

Society

6. This meeting raised a tricky issue. The nub of it is that the Society executive feel under great pressure from their members. They called off industrial action, without consulting their members, on the basis that there would be negotiations in good faith (but without commitment) on "outstanding issues". They feel that they will have to go back soon to their members for confirmation of this way forward, and naturally would prefer to do that on the basis of a resolution of some outstanding issue or issues which would guarantee their members more money to come at some future date, demonstrating that they were right to abandon industrial action. They were looking for some concrete deal they could conclude within the next fortnight. The hint, and it was no more than that, was that without such a deal, their members might vote to resume industrial action. (On balance, we think that unlikely but it cannot be ruled out as completely impossible.)

7. The counterpart of that is that they would clearly be willing to sacrifice some dearly held positions. They are offering to review the grading guidance and even to negotiate a new technology agreement which could have real benefits for management. They have not yet brought themselves to being willing to contemplate pay flexibilities such as performance-related pay, but there is a chance that they might be persuaded to move on that. They recognise that they will get nothing without concessions, and they are desperate enough, in the aftermath of their industrial action, to move towards what management wants.

8. There seem to be three ways we might respond to this.

9. We could take a hard-nosed line, turn them down out of hand, and say we

will go forward on the outstanding issues when we are good and ready to do so in slow time. We would advise against this. It would be a slap in the face for their late conversion to good behaviour, would sit ill with the offer we made to talk to them in good faith about outstanding issues; and as noted above runs the risk, admittedly slight, but best avoided, of bringing them out again at ballot.

10. At the other extreme, we could fall in with their timetable, and rush ahead to see if a deal could be done. But this also has serious drawbacks. It would look as if we had done a secret deal last week to buy the action off. It would undermine those unions such as the IRSF which settled with us without industrial action. And in some of the areas where we would be moving into new territory - eg. new technology - there is a high risk that a scrambled deal would be a bad one.

11. We therefore recommend a middle course. We would go forward as fast we we reasonably can with substantive discussions with them on changes which management seeks and which might give their members improved pay. That is, we would pursue seriously as quickly as it is sensible to do so, the line set out in the last paragraph of the message to staff attached. We would not expect to be in sight of an agreement by the time the Executive felt compelled to consult members. But we would hope to have reached a position where they could advise their members that the talks were making real progress. It might be necessary to write a warm but non-committal letter to the Society at that stage.

12. If you are content with this way forward, we would go ahead with talks, but consulting you again at the stage, if we reach it at which the shape of a possible deal was beginning to become clear, but before of course we got into substantive discussion about money. Meanwhile, we are having an exploratory discussion with the Society later today, at which we will invite them to set out their ideas in more detail, but at which we will not respond to them.

13. IRD agree.



J F GILHOOLY

HM TREASURY
OFFICE NOTICE



ON(GENERAL)(87) 50
26 June 1987

1987 PAY

Attached to this notice is a note issued by Pay Group setting out the latest position on the 1987 pay negotiations.

BRIAN FOX

MESSAGE TO STAFF**PAY**

All the non-industrial unions, except for the CPSA and the SCPS, have now accepted this year's pay offer. For most staff this was based on 4½% or £5.75 per week (whichever was better) for adults, and £3 per week for those under 18, but many grades receive more than this.

The SCPS have suspended industrial action pending further talks with the Treasury. The CPSA will be balloting their members on all-out industrial action.

There is no question of the offer being improved, and the new rates are already being paid, or are in course of being paid, to all staff in grades represented by the unions which have accepted them. Arrangements are now being made to implement the offer for SCPS grades. So far as the CPSA is concerned, of the 195,000 staff in grades they represent - not all of whom are union members - only 49,000 voted in the recent ballot for continued industrial action. It is not reasonable that this minority of people should continue to prevent the majority who did not reject the offer from receiving their increases. Accordingly steps have been taken to put these into payment. All staff should therefore receive the new rises, together with back-pay from 1 April, by the end of July.

For the future the Treasury is ready to discuss arrangements which could give people higher pay on account of their skills or responsibilities, their performance or the fact that they work in areas of special difficulty. These arrangements could also provide for more settled pay negotiations in the future, which could take into account among other things the pay rates and pay increases of groups outside the civil service.



CONFIDENTIAL

CH/EXCHEQUER <i>W.H.</i>	
REC.	01 JUL 1987
ACTION	MR P. KEMP.
COPIES TO	CST PMG SIR P MIDDLETON FER BUTLER MR ANSON MR LUCE MR CHIVERS MR GILHOLLY MR TRUMAN MR GRAHAM MRS HARROP MR WOODALL MR CROPPER.

pm

FCS/87/036

PRIME MINISTER

Misc 66

1. In his letter of 19 June to Tony Kuczys in Nigel Lawson's office, David Norgrove said that the future handling of the Civil Service pay dispute was to be discussed in Misc 66 together with the Chancellor's paper on geographical pay and related issues.

2. Although I am not a member of Misc 66, I am responsible for one group of Crown Servants with a different status from the Home Civil Service; they also have different terms and conditions of service. The conditions under which Diplomatic Service members work and live are becoming more dangerous and disagreeable, as the Chaplin case and the problems faced by our staff in Tehran have shown recently (and in many other places such as Beirut, Kampala, Kabul and Luanda, for very much longer).

3. There is a close link between the terms and conditions of the Diplomatic Service and Civil Service

CONFIDENTIAL



CONFIDENTIAL

pay. Members of the Service receive the same pay rates. Many of their allowances for service overseas are directly linked to pay at home. At the same time, their commitment to accept postings to anywhere overseas at any time restricts their ability to order their lives and their finances as Home Civil Servants can. This has one particularly damaging consequence: wives who work must accept that they cannot develop a career, and must sometimes endure periods of unemployment.

4. Frustration is growing in the Diplomatic Service about this and related problems. We risk losing more of our most able people, particularly those with expensively acquired language skills, when we will need them most. Pay is the essential ingredient.

5. I hope, therefore, that you might include me in meetings of Misc 66 when wider questions of pay and conditions are likely to be discussed.

6. I am sending a copy of this minute to Nigel Lawson, Richard Luce and Sir Robert Armstrong.

(Geoffrey Howe)

Foreign and Commonwealth Office

1 July 1987

CONFIDENTIAL

CONFIDENTIAL

FROM: E P KEMP
2 July 1987

CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary
Paymaster General
Sir Peter Middleton
Mr F E R Butler
Mr Anson
Mr Luce
Mr Chivers
Mr Gilhooly
Mr Truman

*Ch
? Give P Kemp an envelope of
no more than 1 per cent of
pay bill?
AA*

CIVIL SERVICE PAY - CPSA AND SOCIETY - DEVELOPMENTS

Mr Allen's note of today asked about costs.

ladder

2. I should start by saying that it might be we cannot do any deal at all with the Society; it will depend on what value we saw in it, something which the Society themselves understand. As far as possible costs go, what the Society say they are looking for is something like 2 per cent on their pay bill, which on a full year basis would be around £16 million. Of course there would be no question of backdating, so at worst the cost would be around £8 million this year. In fact we would on the one hand expect to get away with something rather less and on the other hand look for a later date. Against that, if we did a deal with the Society there could be repercussions (as Mr Gilhooly's note indicated) on eg the IRSF. If one had to give a "guesstimate" of what might be involved I would put it very roundly indeed at £5 million in 1987-88; but of course the later in the year it happened the less the figure would be. At the extreme, if we got it as far back as 1 April 1988 (and made it part of the 1988 settlement) the 1987-88 cost would be nil. — *full year costs v important*

all-in full year costs?

3. You may like to know that Sir Peter Middleton today had lunch with Mr Christie, the General Secretary of the Society, at his (Mr Christie's) request. Inevitably all this came up. Mr Christie confirmed that as suggested in Mr Gilhooly's note of yesterday he is in a hole. He took his people out to strike on a ballot, and called them off without a ballot;

he says (fairly incredibly from an experienced trade unionist) that he only now realises that he needs a ballot to ratify the calling off of the action. And he wants to be able to recommend that the members should ratify this decision. But he alleges he finds it difficult to do this, or at least difficult to do it in a way which would get the answer he wants, unless he has some kind of money on the table now. He accepts (I am glad to say) that the Treasury have made absolutely no promises and that our furthest commitment over the past couple of weeks has been to resume substantive discussions in good faith over outstanding matters, which of course we are doing, but nevertheless he wants help. Sir Peter Middleton told him that quite apart from the merits of the case there is no possible way in which money or promises of money could appear with Mr Christie's timescale, which is the next week or so; there are Departments to consult, repercussions to consider, and Ministers' minds to take. The furthest we could possibly go, and even this depends on the state of play, would be the middle course recommended in Mr Gilhooly's note of yesterday, accompanied by a warmish letter from me, which could be published, simply confirming that constructive discussions are going forward.

4. My view is that this is the way we should go. Clearly we cannot find money or promises of money now. Equally, I feel that a complete slamming of the door would be unwise from a number of points of view, not least that it would in effect break the undertakings we gave only a week or so ago that we were prepared to enter into good faith discussions over outstanding matters. It is unlikely that whatever we do the Society will go back to industrial action on any great scale, but local difficulties - eg in Customs - could re-emerge. What a warmish letter would look like remains to be seen, but it would have to give no commitments. It might however drop the hint that the later in the year any deal was done the better, and a deal which had no cost until 1988-89 would have a better chance still.

EPK

E P KEMP

CONFIDENTIAL

RFP 3/7



FROM: A C S ALLAN
DATE: 2 July 1987

MR KEMP

cc: PS/CST
PS/PMG
Sir P Middleton
Mr F E R Butler
Mr Anson
Mr Luce
Mr Chivers
Mr Gilhooly
Mr Truman

CIVIL SERVICE PAY: CPSA AND SOCIETY: DEVELOPMENTS

The Chancellor has seen a copy of Mr Gilhooly's minute of 1 July to the Paymaster General. He would be grateful to know how much money is involved in the sort ^{of} deal you are proposing for the Society.

A handwritten signature in black ink that reads 'ACSA'.

A C S ALLAN



10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

2 July 1987

Dear Tony,

MISC 66

The Prime Minister has seen the Foreign and Commonwealth Secretary's minute of 1 July about attendance at MISC 66.

The Prime Minister believes that the particular concerns mentioned by the Foreign Secretary relating to terms and conditions of the Diplomatic Service are matters which should be discussed bilaterally with the Treasury. They would not be appropriate for discussion in MISC 66. The Prime Minister is, however, content that the Foreign Secretary should attend MISC 66 when wider questions about pay and conditions are likely to be discussed. I should be grateful if the Cabinet Office could arrange for the Foreign Secretary to be invited to attend for such discussions and for him to receive copies of the MISC 66 papers.

I am copying this letter to Alex Allan (H.M. Treasury), Michael Stark (Office of Arts and Libraries) and to Trevor Woolley (Cabinet Office).

Jr,
David

David Norgrove

A. C. Galsworthy, Esq., C.M.G.,
Foreign and Commonwealth Office.

CONFIDENTIAL

CHECKED	
03 JUL 1987 3/7	
MR GILHOBY	
CST PMG	
SIR P. MIDDLETON	
MR KEMP	
MR CHIVERS	

FROM: J GRAHAM
DATE: 3 July 1987

- 1. MR GILHOOLY
- 2. PS/PAYMASTER GENERAL

cc PPS
 PS/CST
 Sir P Middleton
 Mr F E R Butler
 Mr Kemp
 Mr Chivers
 Mr Culpin
 Mr Truman o/r
 Mr Woodall

letter to issue?

OK. One or two a week.

CR 3/7

2. What diff bet Mr maker of a 1978-79 (a week) 1979-80 same date work used?

CIVIL SERVICE PAY

1. Mr Younger's letter of 26 June to the Chancellor claims that most Civil Service grades are worse off in real terms than they were in 1979. But he does not say how precisely he reached this conclusion. There are several approaches to measuring how civil servants have fared in real terms in recent years. Two obvious approaches are (i) the change in real earnings and (ii) the change in real salary levels. I understand Mr Younger's statement may have been based on the movements in the pay scale maxima for the main administrative grades between 1979 and 1986.

2. You will be interested to see the figures in the attached annexes which deal with both possibilities; movements in Civil Service average earnings and scale maxima since 1979. These show that:

i. the rise in Civil Service average earnings between 1979/80 and 1986/87 has exceeded that in the retail prices index, and

ii. the increases in the scale maxima for all main administration grades between April 1979 and April 1986 have exceeded retail price inflation.

3. Comparison with the TPI (which gives a measure of real take home pay) would show a more favourable picture.

4. These sorts of comparisons are complicated and can be subject to different interpretations. For example the comparison of scale maxima is affected by the staged implementation of the 1979/80 settlement. It may therefore be worth offering Mr Younger the opportunity of officials resolving any uncertainties with the figures. We do not want a continuing exchange of correspondence at Ministerial level on this sort of question.

5. I attach a draft reply the Chancellor might send to Mr Younger.

Malcolm McBerthy

PPJ GRAHAM

9/30/JS

DRAFT REPLY TO MR YOUNGER

CIVIL SERVICE PAY DISPUTE

Thank you for your letter of 26 June in which you supported the judgement to implement the pay offer and move forward on check off. As you know implementation of the offer is underway but as yet no final decisions have been taken on check off. I will ~~continue~~ ~~to~~ keep you and other colleagues informed of developments in the current dispute.

In the meantime I would like to take up the statement in the third paragraph of your letter where you say that most grades in the Civil Service are worse off than they were in 1979.

I would question this claim, ~~though I am not sure on which figures it is based.~~ ~~In fact~~ ^{the} increase in average earnings for the whole Civil Service between 1979-80 and 1986-87 exceeded the increase in inflation as measured by changes in the retail price index, by 14 per cent. Similarly, if one looks at movements in salary levels (scale maxima) for the main administrative grades between April 1979 and April 1986 compared ^{with} ~~to~~ inflation, there has been ^a ~~some~~ real increase, ~~contrary to your suggestion.~~

Comparisons of this sort are ~~tricky~~ ~~and~~ ~~inevitably~~ ~~are~~ ~~capable~~ ~~of~~ ~~different~~ ~~interpretations.~~ But I would be concerned if the false idea that civil servants have fallen behind in real terms since

1979 took root ⁷ not least because of the current ~~industrial troubles~~ ^{dispute.}

As this is an important area I would be content for our officials to meet to resolve any uncertainties or problems of definition if you felt that would be helpful.

I am glad you welcome the current initiatives on the pay front which should help overcome the wider problems you see facing the Civil Service.

CONFIDENTIAL

FROM: F. E. R. BUTLER
3rd July, 1987.

CHANCELLOR OF THE EXCHEQUER

c.c. Chief Secretary
Paymaster General
Sir Peter Middleton
Mr. Anson
Mr. Kemp
Mr. Luce
Mr. Chivers
Mr. Gilhooly
Mr. Truman

CIVIL SERVICE PAY - CPSA AND SOCIETY - DEVELOPMENTS

May I offer one gloss on Mr. Kemp's minute, reflecting a point which I have made directly to him.

2. From the point of view of maintaining the running costs system as an effective discipline, a lot depends on holding to the great majority of limits this year. We are already conducting guerrilla warfare with several departments - MAFF, Department of Transport, DHSS, DES and Inland Revenue: we will probably have to make some increases for the latter three (although on special and defensible grounds) but we hope to see off the first two. But we must avoid a flood of breaches.

3. From this point of view, there is a high premium on any settlement with the Society running from 1st April 1988 rather than adding further to this year - especially if there was then to be a spin-off onto other groups which have already settled, such as IRSF. We can take into account effects on next year and subsequently in our discussions on the Survey, with much less damage to the running costs system.

4. Since it looks as if we have Mr. Christie in the position where he is desperate for some concession and

CONFIDENTIAL

is in no position to negotiate too hard on what it is,
it would help very much from the running costs point of
view if it did not come into operation until April 1988.

F.R.B.

F. E. R. BUTLER

CONFIDENTIAL

purp

FROM: A C S ALLAN

DATE: 3 July 1987

MR KEMP

cc: PS/CST
PS/PMG
Sir P Middleton
Mr F E R Butler
Mr Anson
Mr Luce
Mr Chivers
Mr Gilhooly
Mr Truman

CIVIL SERVICE PAY - CPSA AND SOCIETY - DEVELOPMENTS

The Chancellor was grateful for your minute of 2 July. Mr Butler's minute of 3 July comments on it.

2. The Chancellor is content for you to pursue the course you recommend, provided that the total full year addition to the pay bill is no more than one per cent, and preferably less; and provided that no cost, or only a negligible one, falls in this financial year and so adds to pressure on running costs.

ACSA

A C S ALLAN

cc PS/PMG
 PS/CST
 Sir P Middleton
 Mr F E R Butler
 Mr Kemp
 Mr Chivers
 Mr Culpin
 Mr Truman
 Mr Woodall
 Mr Gilhooly
 Mr Graham



Treasury Chambers, Parliament Street, SW1P 3AG
 01-270 3000

6 July 1987

The Rt. Hon. George Younger MP
 Secretary of State for Defence

George Younger

CIVIL SERVICE PAY DISPUTE

Thank you for your letter of 26 June in which you supported the judgement to implement the pay offer and move forward on check off. As you know implementation of the offer is underway but as yet no final decisions have been taken on check off. I will continue to keep you and other colleagues informed of developments in the current dispute.

In the meantime I would like to take up the statement in the third paragraph of your letter where you say that most grades in the Civil Service are worse off than they were in 1979.

I would question this claim. The increase in average earnings for the whole Civil Service between 1979-80 and 1986-87 exceeded the increase in inflation as measured by changes in the retail price index, by 18 per cent. Similarly, if one looks at movements in salary levels (scale maxima) for the main administrative grades between April 1979 and April 1986 compared with inflation, there has been a real increase.

Comparisons of this sort are inevitably tricky. But I would be concerned if the false idea that civil servants have fallen behind in real terms since 1979 took root - not least because of the current dispute. As this is an important area I would be content for our officials to meet to resolve any uncertainties or problems of definition if you felt that would be helpful.

I am glad you welcome the current initiatives on the pay front which should help overcome the wider problems you see facing the Civil Service.

I am copying his letter to other members of the Cabinet, the Minister of State (Privy Council Office) and to Sir Robert Armstrong.

Nigel Lawson

NIGEL LAWSON

CONFIDENTIAL



FROM: S P JUDGE
DATE: 7 July 1987

PAYMASTER GENERAL

PRINCIPAL PRIVATE SECRETARY

cc PS/Chief Secretary
Sir Peter Middleton
Mr F E R Butler
Mr Kemp
Mr Gilhooly
Mr Chivers
Mr Culpin
Mr Truman - or
Mr Graham
Mr Woodall

CIVIL SERVICE PAY

Mr Graham's note of 3 July to me (of which you have a copy) advised on Mr Younger's letter of 26 June to the Chancellor.

I attach a revised draft for the Chancellor's signature, which the Paymaster General has approved.

The Paymaster suggests that it would be logical for the Chancellor to copy his reply to those who received Mr Younger's letter.

A handwritten signature in dark ink, appearing to be 'S P JUDGE', written in a cursive style.

S P JUDGE
Private Secretary

P.S. Para 3, line 4: "18%" is correct.

CONFIDENTIAL

DRAFT LETTER FROM THE CHANCELLOR TO THE SECRETARY OF STATE FOR DEFENCE

CIVIL SERVICE PAY DISPUTE

Thank you for your letter of 26 June, in which you supported the decision to implement the pay offer and move forward on check-off. As you know implementation of the offer is underway, but no final decisions have yet been taken on check-off. I will continue to keep you and other colleagues informed of developments.

In the meantime I would like to take up the statement in your letter that "most grades [in the Civil Service] are worse off than they were in 1979".

You do not set out the figures underlying this claim. In fact the increase in average earnings between 1979-80 and 1986-87 for the whole Civil Service exceeded the increase in the RPI by 18 per cent. Similarly if one looks at movements in salary levels (scale maxima) for the main administrative grades between April 1979 and April 1986, there has again been some real increase.

Comparisons of this sort are tricky, and inevitably are capable of different interpretations. But I would be concerned if the false idea that civil servants have fallen behind in real terms since 1979 took root - not least because of the current industrial troubles. As this is an important area I think it would be useful for our officials to resolve any uncertainties or problems of definition.

I am glad you welcome the current initiatives on the pay front, which should help overcome the wider problems you see facing the Civil Service.

I am copying this letter to other members of the Cabinet, the Minister of State (Privy Council Office) and to Sir Robert Armstrong.

APS/CHANCELLOR

FROM: J GRAHAM
DATE: 7 July 1987cc. PS/Chief Secretary
PS/Paymaster General
Sir P Middleton
Mr F E R Butler
Mr Kemp
Mr Chivers
Mr Culpin
Mr Gilhooly
Mr Truman
Mr WoodallCIVIL SERVICE PAY

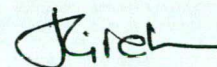
Your minute of 6 July asked for the increase in Civil Service real average earnings since 1978-79.

2. These figures together with those using a 1979-80 base for comparison are as follows:

	1986-87 over 1978-79	1986-87 over 1979-80
	(percentage changes over previous years)	
1. Civil Service average earnings	120.5	97.6
2. RPI	93.3	66.9
3. Real average earnings	14.1	18.4

3. As these figures suggest real average earnings fell in 1979-80 when inflation at 16 per cent exceeded the 11½ per cent increase in nominal earnings.

4. The draft letter to Mr Younger attached to my minute of 3 July had a typing error, for which I apologise, in the third paragraph line 4, where the real increase in average earnings since 1979-80 should have been 18 per cent not 14 per cent. I had already alerted the Paymaster General's Office on this point but I hope this clears up any uncertainty.

now corrected


J GRAHAM

FROM: J GRAHAM
 DATE: 9 July 1987

1. MR GILHOOLY
 2. CHANCELLOR

cc Chief Secretary
 Paymaster General
 Sir Peter Middleton
 Mr F E R Butler
 Mr Kemp
 Mr Luce
 Mr Mountfield
 Mr Chivers
 Mr Painting
 Mr Denison
 Mr Cropper

9/17
C/letter to issue?

OR 9/17

MISC 66

In his letter of 1 July to the Prime Minister, the Foreign Secretary asked to be included in future meetings of MISC 66 when wider questions of pay and conditions are to be discussed because of the close link between terms and conditions of the Diplomatic Service and the Civil Service. He also mentioned his concern that the FCO risk losing good staff because overseas allowances are increasingly perceived as inadequate compensation for the commitment to work overseas and the associated difficulties for spouses' employment prospects.

2. The Prime Minister is content for the Foreign Secretary to attend MISC 66 when wider questions of pay and conditions are to be discussed (Mr Norgrove's letter of 2 July to the Foreign Secretary's Private Secretary), but believes rightly that questions relating to the terms and conditions of the DS should be dealt with outside MISC 66, bilaterally with the Treasury.

MISC 66

3. The Foreign Secretary's admittance to MISC 66 even on certain conditions is likely to prompt similar requests from other Ministers. They will have to be dealt with as they arise. It is difficult to imagine a MISC 66 that does not cover wider questions of pay and conditions so in practice Sir Geoffrey may have a permanent

eat but the proviso is useful as there may be occasions when the FCO should properly be excluded.

Diplomatic Service Terms and Conditions

4. You will recall the exchange on this with the Foreign Secretary in the context of the Treasury's proposals for geographical pay and South East supplements. He raised two difficulties

a. many overseas allowances are linked to salaries of the Home Civil Service and restraints on the latter feed through into inadequate allowances

b. the commitment to accept overseas postings disadvantages DS staff compared to their Civil Service counterparts particularly because it disrupts their spouses' careers.

5. Your reply of 13 May 1987 accepted that officials should consider, without commitment, the possible ways forward within the constraints of existing running cost limits. The problem, if there is one, is that the FCO have not yet fully taken up the opportunity offered to them. The Foreign Secretary has not responded to your letter.

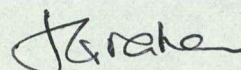
6. Since then the FCO have not come forward with any suggestions on (a) - and nor have they followed up earlier discussion on this between their Chief Clerk and Mr Kemp. On (b) the FCO have resubmitted to the Treasury an earlier proposal to pay a language allowance to spouses of DS staff at a total cost of about £25,000 a year and Pay 3 have accepted a modified discretionary scheme within running cost provision. This was largely coincidental. The only other known proposal in the pipeline is a further refinement of Difficult Post Allowance, which we await.

7. A bilateral with the Foreign Secretary at this stage therefore seems unnecessary. We do not want to encourage the FCO to invent new proposals and we can rest on your earlier acceptance of the

use for further discussions amongst officials. But we might explore with them whether there is any substance to the Foreign Secretary's worries over retention and if so whether more pay is indeed the answer.

8. In his letter to you of 15 April which covered the proposals on geographical pay and the difficulties mentioned in paras 5(a) and (b) the Foreign Secretary has already suggested he will be asking for extra central funds. On the latter points you made it quite clear that any changes would need to be borne within existing running cost limits. We will maintain that position in public expenditure discussions. The Foreign Secretary has not, in fact, bid for any additional resources for this purpose in this year's Survey but his minute of 26 June to the Chief Secretary about the FCO programme warns us that he expects to make such a bid in the Survey next year.

9. A draft reply, agreed with Pay 3 and AEF(1), is attached.



J GRAHAM

~~DRAFT LETTER~~

MINUTE

To: The Foreign and Commonwealth Secretary

From: Chancellor of the Exchequer

Copies: Sir Robert Armstrong
Richard Luce

MISC 66

Thank you for copying to me your ^{minute} (letter) of 1 July to the Prime Minister.

In view of the close relationship between terms and conditions in the Civil Service and the Diplomatic Service I agree that it would be useful for you to attend MISC 66 meetings when wider questions of pay and conditions are to be discussed.

We have already exchanged letters on your particular concerns over the terms and conditions of the Diplomatic Service and in my letter to you of 13 May 1987 on public sector pay and South East supplements I accepted that our officials should consider together ways forward within the constraints of existing running costs.

Since then my officials have responded to a proposal from yours and agreed a discretionary scheme for paying a language allowance to spouses of Diplomatic Staff. If there are other remaining issues I remain content, in the first instance, for these to be discussed between our officials.

I am copying this letter ^{to the recipients of} (as) yours.

NIGEL LAWSON

1. MR GILHOOLY *See minute 27.7*
 2. MR KEMP (*not available*)
 3. CHANCELLOR

FROM: MRS M J HARROP

DATE: 9 July 1987

cc Chief Secretary
 Paymaster General
 Sir P Middleton
 Mr F E R Butler
 Mr Anson
 Mr Luce
 Mr Chivers
 Mr Truman
 Mr Bell
 Mr Graham
 Mr Cropper

GEOGRAPHICAL PAY

You have offered to circulate a paper on geographical pay. A draft minute to the Prime Minister, and rather fuller note by Treasury officials, is attached.

2. You will recall that the Treasury-chaired Working Party recommended that departments should be able to make two new forms of payment: a South East Supplement of up to £500, subject to a limitation of £200 on average payments, and Local Pay Additions of up to £400. Both would be additional to normal salaries and, where appropriate, London Weighting; would have to be justified on recruitment and retention grounds; and would have to be paid for from departments' running cost limits. The note by Treasury officials describes the approach in more detail, and discusses the three main points raised in Ministerial correspondence: the size of the payments (some Ministers thought that larger amounts were needed - and argued that "new money" should be made available); the industrial relations dimension; and the bureaucracy involved.

3. This Ministerial correspondence arose from the second report to the Prime Minister on geographical pay. The first was in February, when MISC 66 considered an outline note, as well as papers on other aspects of civil service pay. Ministers were generally in favour of the approach, but the Prime Minister, while sympathetic to the

case for doing something in the South East of England, asked for further information, in particular on the costs. This was included in the full Working Party report which you circulated to Cabinet members in March. At that stage the possibility of including the proposals in the final offer to the unions was being considered, but this was ruled out because of the cost of the other extra payments being offered. The Prime Minister said that the proposals should be looked at again "later in the spring" but the dispute with the unions, and then the General Election, intervened.

4. There are several reasons for seeking approval to the approach, and opening discussions with the unions, at this stage -

i. The practical problems of recruiting and retaining staff of adequate calibre are, if anything, getting worse. At a recent meeting Mr Kemp held with Establishments Officers of the major departments there was a unanimous view from them that the scheme should go ahead as quickly as possible - which, for practical reasons, means not before 1 January 1988.

ii. The 4.25 per cent offer on London Weighting was countered by a much larger claim, of over 30 per cent, from the unions. This has not yet been discussed, but they are now talking of arbitration. It would be difficult to resist this unless the proposals for a South East Supplement are tabled, when we could argue that structural changes - which would give some people more than the unions are claiming - are being suggested, and that arbitration is therefore not appropriate. Arbitration would almost certainly be expensive because of the large increases offered by some employers (eg the clearing banks, at well over 30 per cent) and recently published surveys (which are attracting public attention - see for example the attached article in today's "Independent".)

iii. We told the unions in February that proposals were under consideration for dealing with difficult

circumstances of recruitment and retention where they exist in London, the South East and other parts of the country, but have given no more details. The more reasonable unions are showing increasing curiosity; the more extreme ones are using this phrase to stir up trouble, suggesting that reductions in cash salaries in some areas are being considered. In fact, the proposed scheme is relatively modest, and does not involve anything less than the 4.25 per cent offer for anyone.

iv. "Regional" pay is, according to the publicity put out by the CPSA's Militant Executive, the cause of the continuing dispute. And other unions (IRSF and the Society) have a lot of pressure from their members outside the South-East against any move towards regional pay. However, the proposals can be presented as no more than a development of what is already in place - and the unions themselves want much more in London - a point which could be used in presenting the proposals to the staff. Indeed, our proposals could lead for some groups of staff to potentially larger increases eg in central London, and in places outside the existing zones, like Reading, than the unions are currently claiming, depending on the priorities of individual departments.

5. The full year cost of the scheme would depend on the extent to which Departments made use of it: they are not compelled to do so. But the scheme would, if taken to its limit, cost under £20 million in a full year - or some £4-5 million in 1987-88 if an implementation date of 1 January were adopted. This starting date would increase the 1987-88 pay bill by under 0.1 per cent. There would be some variation in the effect on individual departments: the Scots and Welsh, for example, would pay virtually nothing, but those which are mainly in central London, such as the Department of Energy and the FCO, might want to pay most of their staff. They might argue that they needed extra running costs, but we have always stressed that the cost must be found from within existing limits - and the proposed scheme does not force departments to pay anything.

6. Despite the discretion for departments, the Treasury will retain control over the scheme and its maximum cost. All departments will have to send their overall plan to us for formal approval, and any individual case, within the plan, where local departments cannot agree, will be referred to us. The rules and criteria are set out in some detail, and the use made of the scheme would be monitored closely and reviewed within two years.

MJH.

MRS M J HARROP

London weighting deals not enough, pay survey shows

THE LEVEL of London weighting is totally inadequate and the whole idea of such payments is being questioned by employers, according to the annual survey by the research group Reward Regional Surveys published yesterday.

Reward found that existing allowances would have to be increased on average by 76 per cent, or £2,505, for central London and 119 per cent (£1,602) for outer London in order to cope with higher cost of living.

One answer to the inadequacy of London weighting, which can result in the loss of the best and most qualified staff, is simply to push up pay levels said the report.

But one potent argument against such a solution is the difficulty of reducing salaries when employees are subsequently relocated outside London.

The 554 companies surveyed by Reward have responded to the massive rises in the cost of living in London by increasing weighting payments by an average 12.7 per cent in Inner London and 6.9 per cent for outer London.

With general pay awards averaging around 6 per cent, companies are therefore being forced to increase their special payments at a much faster rate.

The outer geographical limit for extra payments are also being extended from the old Greater London Council boundary to the M25, a trend which the research-

By Barrie Clement
Labour Correspondent

ers expect to accelerate during the next two or three years.

The survey cites the clearing banks as an example of the trend. An extra £600 allowance has in fact been extended well outside the M25 to include Crawley, Reading and Guildford. The authors however question whether

area will simply pay the going rate.

The researchers contend that companies retaining London weighting will need to be more flexible in their general pay policies and award "scarcity" payments where necessary.

Average pay levels, according to surveys conducted by the research company, show that salaries, including London weighting, are above the national average by the following: Management 29 per cent, clerical, 40 per cent and "operatives" 9 per cent.

The Income Data Services Report for July, its 500th, points to a crisis in the London labour market based largely on the cost of travel and housing. In Greater London house prices are rising by an annual rate of 27 per cent. The situation has led to particular problems for first time buyers and those in mid-career wanting to move to London, IDS says.

Incomes Data estimates that the national average mortgage to a first time buyer in the first quarter of the year was £27,770, compared with £35,780 for the outer metropolitan area and in Greater London £40,170. In the West Midlands the figure was £21,610 and in the North West £19,960.

The paper says the role of the weighting allowance has changed from simply compensating staff for cost differences to a system for retaining and recruiting personnel in short supply.

LONDON WEIGHTING (summer 1987)

	Inner London	Outer London
Lower quartile	£1,151	£535
Median	£1,420	£732
Upper quartile	£1,600	£950

Source: Reward Regional Surveys, Reward House, 1 Mill Street, Stone, Staffordshire ST15 8BA

this is the best way of tackling the problem, given that there will be inexorable pressure to increase the boundaries still further.

However, despite the problems with the system of London weighting, the report says that the practice will continue for companies which have branches outside the capital. Those which are located solely within the London

DRAFT MINUTE FROM THE CHANCELLOR TO THE PRIME MINISTER

We are to discuss "geographical" pay in the Civil Service at our meeting of MISC 66 on 22 July.

2. You already know of the proposals which were developed by a Treasury-chaired Working Party earlier this year. Further work has been done by officials, and some of our colleagues commented before the Election. The attached note by Treasury officials summarises the proposed scheme and discusses the three main points raised in Ministers correspondence: the level of payment; [the] industrial relations [dimension]; and the bureaucracy.

3. I ^{believe} [think] that we should now decide to go ahead with this scheme. We are faced with [on the one hand,] real problems in recruiting and retaining staff of adequate calibre in London, parts of the South East of England and ⁱⁿ pockets elsewhere; [and, on the other hand, ^{But we} limits] on running costs.] The best way forward is to allow departments to allocate some of their existing running costs to paying more to staff in their problem areas, within constraints and according to criteria agreed centrally. The alternative approach, of giving large across the board increases to all staff in London itself and in the other difficult areas would be much more expensive - £500 a head would cost some £40 million a year, or over £70 million if all grades who at present receive London Weighting were included. By contrast, the proposed discretionary scheme would cost around £20 million in a full year - and only some £5 million in 1987-88 if implemented from 1 January 1988. But the

running costs position this year is tight and that (and the desirability of securing expenditure on geographical pay as part of the 1988 negotiations) point to an implementation date of 1 April next.

4. [It is true that the proposed maximum extra payment of £500 may not solve the problem because some other salaries, especially in the City of London, are so high. However, the addition would be a useful step, which could be developed in future years if the recruitment and retention situation warranted this. And it] ^{This move} would establish two important principles: that the pay of an Administrative Officer, for example, is not necessarily the same in all parts of the country; and that different departments can pay staff in the same grade on varying bases. Thus the scheme would be an important step towards a more flexible approach to civil service pay.

5. The position viz-a-viz the unions is difficult. They have been offered a 4.25 per cent increase in London Weighting, and have put in a counter-claim for about 30 per cent which has not yet been discussed. They have also been told that proposals are under consideration for dealing with difficult circumstances of recruitment and retention where they exist in London, the South East and other parts of the country. No details have been given, and the unions are starting to talk of going to arbitration on the London Weighting offer. This would be difficult to resist unless we put the "geographical" proposals on the table, in which case we could argue that arbitration was inappropriate because structural changes were being considered. (Arbitration on London Weighting alone would almost certainly be expensive; one bank has already offered £1000 extra and the others may well follow suit.)

6. The unions' public opposition to any form of "regional pay" has increased recently. However, the scheme could be presented as nothing very new. London Weighting is accepted as fair, and the unions themselves are claiming large increases; the South East Supplement proposal acknowledges the problem in London itself, but recognises that it goes further than the existing London Weighting zones (a point which the unions know very well from their members around London). As for the rest of the country, there is an existing mechanism, Special Pay Additions, which could be used to achieve our aim. These have never been agreed by the unions, but are broadly accepted as a fact of life. A slight relaxation of the criteria, with more emphasis on location rather than only skill, could be made administratively. [This presentation should lesson the risk of serious industrial trouble; at all costs we should avoid the terms "regional" or "geographical" pay.] Even so, there could well be some trouble at local level, and it would still be important to ensure local consultation between different departments, and to create "lead departments".

7. [I hope that you will agree]^{1 propose} that my officials should now open discussions with the unions on this basis, with a view to asking departments to formulate detailed plans for approval by the Treasury.

[If we do not decide soon, an implementation date of 1 January will become impossible.]

8. I am copying this minute to the members of MISC 66, to the Secretaries of State for Scotland and Wales and to Sir Robert Armstrong.

**GEOGRAPHICAL VARIATIONS IN THE PAY OF THE
NON INDUSTRIAL CIVIL SERVICE**

Note by HM Treasury

1. A Treasury-chaired Working Party was set up in November for two main reasons: the increasing concern of Ministers about the effect of national pay rates on the economy as a whole; and the practical problems of recruiting and retaining civil servants of adequate calibre in some parts of the country. The Working Party focussed on the managerial aspects and reported in February.

2. The evidence collected by the Working Party confirmed the geographical imbalance. Most vacancies can be filled, but in some places only with staff who are of a barely acceptable calibre, and after considerable time and effort. The same places tend to have relatively high resignation rates. There is no doubt that very high rates of turnover, and inexperienced and low calibre staff, lead to costs and inefficiencies. On the other hand there are areas where there are few resignations and embarrassingly large numbers of well-qualified applicants for the vacancies which do arise.

3. The problem areas are mainly in London and parts of the South East of England, but there are localised pockets elsewhere. Some towns in the South East, such as Reading, face difficulties as severe as in the worst parts of London; but other parts of the South East have fewer problems than in pockets elsewhere in the country. Even within one area, there are variations between departments and, indeed, between particular offices. However, the problem in London and parts of the South East is a consistent theme. The reasons are a complex mix, and pay is certainly not the whole story; but the Working Party agreed that the evidence on recruitment and retention was strong enough to justify paying relatively more in the problem areas.

4. Two new types of payment were recommended: the South East Supplement, and Local Pay Additions. The former would be payable

in a new zone, very roughly a few miles beyond the M25 but with extensions along the M3 and M4; and the latter in the rest of the country. Both would be additions to existing salaries and, where appropriate, to London Weighting, and would mainly apply to relatively junior staff, in the clerical and secretarial grades and to Executive Officers.

5. Because of the very localised nature of some of the problems, individual departments would be able to decide how much to pay in different places, subject to Treasury approval, and according to common criteria. This approach also helps to contain the cost, which must be found from existing running costs limits. The suggested maximum for the South East Supplement is £500 pa, with the average payment in the zone not normally exceeding £200; in the rest of the country the maximum would be £400. Proposals to make either type of payment would have to be justified on recruitment and retention grounds.

6. However, this discretionary approach carries the risk of industrial trouble as staff are not used to the idea that people of the same grade and seniority will not necessarily receive exactly the same pay, even if they work in the same town. Careful handling would be needed, and departments would have to keep in close touch at local level. At present there appears to be surprisingly little contact between departments at local level, and it would therefore be necessary to set up a network of "lead departments" who would liaise with other departments with local offices about proposals to pay a South East Supplement or Local Pay Addition. Cases of disagreement would be referred to the Treasury. In time, the "lead departments" might take on a wider role, certainly in improving communication between departments at local level and possibly in arranging joint action eg on recruitment exercises.

7. Since the Working Party reported there has been further work by officials. This included a "dry run" of how the scheme would work across the UK for six departments; and, for more departments, in four places - Greenwich, Cambridge, Guildford and Glasgow. A number of Ministers also wrote with comments. The upshot of this work is that there is general agreement that the proposed scheme

is feasible, but three major points emerged: the question of how much money should be available; the industrial relations dimension; and the bureaucracy involved. Each is discussed below.

Level of Payment

8. Some departments have argued that £500 is not enough to tackle their problems of recruitment and retention in parts of the South East as competing employers are paying at least £1000 more than current civil service rates. If the payments had no effect on easing the problem, the money would be wasted. On the other hand, there should be a psychological effect from giving something, and £500 is a significant addition to the salary of an AO. There is also the question of whether departments could afford more out of their running costs. The scheme would be experimental and the results closely monitored; Ministers could, if they so wished, decide to increase the maximum payments during the two years for which the scheme would run, in the light of experience.

9. The £200 average limit in the South East also causes problems for some departments. In particular, those with only a headquarters office in central London have argued that they would effectively be limited to £200 a head, as it would be difficult to treat staff in the same office on a different basis. Yet a department with an office next door, but also offices scattered around the South East, might well pay an extra £500 a head in central London, while keeping within the £200 average. The Department of Employment have raised a slightly different point. They, like many departments, want to focus on AOs - but they have a very high proportion of their staff at this level. So their room for manoeuvre is more limited than departments with a more even spread of grades.

10. The Treasury's view is that both figures should continue, but that there might be some slight flexibility on the £200 to deal with exceptional circumstances. Any such case would, however, have to be approved specifically by the Treasury. There would be no flexibility on the £500 (except for the secretarial group in Inner London, who already receive £400 as a SPA and would be entitled to up to £200 extra). However, there could be an interim review

of some aspects of the scheme, including the amounts, before the full review after two years. The cost of increasing the amounts now would put too much of a strain on running costs; some departments are already worried about this with the amounts now proposed. There is no question of providing "new money" for these payments.

Industrial Relations

11. The dry runs underlined the need for departments to work together at local level. Different departments did, as expected, plan to use the scheme in different ways, and this would lead to variations in the amounts paid to people of the same grade and seniority in the same town, but in different departments. Trade unions would obviously try to pick off one department against another at local level; and then one locality against another at departmental level. Their success in this would depend partly on the management approach - and also on the attitudes of the unions at national level.

12. Most departments thought that some variations at local level would be tolerable; local office staff in the Inland Revenue and DHSS already have a pay lead, which is generally accepted. But close liaison between departments would be extremely important, in particular in cases where there were several Government offices on one site. Where two departments jointly ran one establishment (as opposed to having different offices on the same site) the same payments would probably have to be made by each, but this should be looked at on a case by case basis.

Administration

13. It must be recognised that the schemes would involve extra administration. There is at present no machinery for local consultation between Departments, but this is crucial; there is therefore no escaping extra administrative burdens on departments which will be greatest in the first six months or so when the workings are set up, involving the creation of "lead departments" to liaise with local offices, with cases of disagreement being referred to the Treasury.

14. Another aspect is that it is difficult to lay down precise operational criteria for payments. The proposed schemes involve discretion for departments, and the circumstances of each varies. For example, some find it difficult to recruit staff, while others, even in what are generally problem towns, can recruit good quality staff, but have high wastage after about two years when training is complete. One advantage of the approach is that it should allow departments to tailor payments to their needs. However, central control and co-ordination is vital, in particular with a new scheme, if we are to have any hope of avoiding the kind of dispute which arose in Reading when computer specialists in two different departments, but working together, were paid different amounts. The preparation and consideration of these plans will involve a considerable amount of work, for departments and the Treasury, but the working group agrees that this is unavoidable if the schemes are to get off the ground.

Timetable

15. If Ministers agree to the introduction of the new schemes the next steps are:-

STAGE 1 - 2-3 months from Ministerial approval

Treasury issues requests for departmental plans
 Treasury opens discussions with national unions
 Departments prepare plans, consulting local managers.

STAGE 2 - 3-4 months from Ministerial approval

Treasury considers departments' plans, and gives formal approval or comments.

STAGE 3 - 4-7 months from Ministerial approval

Departments consult at local level
 Cases where departments cannot agree referred to the Treasury

Amendments to original plan fed back to the Treasury, who would not have to give formal approval provided that the changes were within the scope of the original plan.

16. This timing is based on the views of departments on how long would be needed for each stage. In practice it means that the schemes probably could not be implemented before 1 January 1988. This would bring the 1987-88 cost down to £4-5 million, under 0.1 per cent of the pay bill, and should ease the immediate problem of running costs.

17. The timing assumes that there will be no pilot exercise. The Working Party examined this possibility, but decided that it would lead to delay (a period of about six months would be needed for a meaningful pilot) and would allow the trade unions to concentrate opposition on the two or three places selected. It was not clear what would be learnt from a pilot exercise, and most departments agreed that the schemes should be implemented across the board rather than piloted first.

HM TREASURY
June 1987



AMS

10 JUL 1987

PAYMASTER GENERAL	
REC.	110 JUL 1987
ACTION	MR KEMP
	PS/CH/EX
	PS/CST, PS/FST
	PS/FST
	SIR P MIDDLETON

CH/EXCHEQUER

REC.	10 JUL 1987
PMG	
TO	

PMG
Already
seen.

FCS/87/150

CHANCELLOR OF THE EXCHEQUER

MR FER BUTLER
MR GILHOOLEY
MR PAINTING

MR Halligan Mr Ranford

Diplomatic Service: Conditions of Service Overseas

PMG

1. When we met on 17 June, I told you of my concern about the deteriorating conditions in which the Diplomatic Service has to serve overseas and my wish to ensure that the allowances we pay reflect these conditions. I had referred to my concerns in this area in my earlier minute of 15 April.

2. As the Chaplin case has recently shown, postings overseas can involve physical danger; circumstances are similar in Beirut and Kampala. Staff are under direct threat from the effects of war in Baghdad and Kabul. There is the additional problem of drug-related terrorism in posts such as Bogota. And the health threats in many parts of the third world remain serious.

3. With the Treasury's agreement, we introduced last year a new Special Difficult Post Allowance to meet some of these problems, in particular where there is a real danger to life. But we need to go further than this. We must make our Difficult Post Allowance system more flexible, so as to increase the money which we pay our staff in those posts which are not only dangerous but also where the social infrastructure and living environment are collapsing. I have in mind third world capitals such as Accra, Georgetown, Luanda and Maputo. All these are in our top category of Difficult Post Allowance, but our most junior staff there only receive an extra £608 per year to compensate them for the many difficulties they face. That is insufficient. My officials will, therefore, be putting to yours this month

/a



a set of detailed proposals designed to improve the scheme and to compensate for the devaluation of Difficult Post Allowance (paid as a percentage of salary) as a result of general restraint on Civil Service salaries. This will involve some additional expense, but we can rearrange our priorities to meet it within our running costs ceiling as adjusted by the results of the PES Round. I hope, therefore, that your Department will be able to give speedy approval to what we propose.

4. A different problem affects some of our more distant posts even where conditions are good (eg Tokyo). Tour lengths are often long (two to two-and-a-half years) and air fares are such that people find it hard to pay for a return to the UK out of their own pockets. Effectively it is impossible for the junior staff. This is bad for morale, particularly when most companies provide at least annual trips home for their employees. It means that our staff lose touch with the UK, and it is particularly hard on staff who may have personal or family matters in the UK which need their attention. Our officials made proposals to yours last year to introduce a scheme for more frequent travel for some of these posts, funded entirely by continued improvements in the efficiency of our travel arrangements. But your officials feared a repercussive effect for the Home Civil Service. I hope you will think again. The logic of FMI is that good management of resources by Government Departments should allow them to redeploy savings where the Department thinks that necessary for its efficient operation.

5. The effect on Home Civil Servants serving overseas should not come into the equation on either of the proposals mentioned in this minute. The Diplomatic Service and its staff are recruited and posted on an entirely different basis

/from



from the Home Civil Service. Home Civil Servants work overseas on the basis of choice, and in a far more restricted set of postings than the Diplomatic Service (how many in Beirut or Luanda?). Diplomatic Service staff have an obligation to go wherever and whenever they are posted, irrespective of their personal circumstances or the unattractiveness of the post: they should be rewarded accordingly.

(GEOFFREY HOWE)

Foreign and Commonwealth Office

9 July 1987

CONFIDENTIAL

CHANCELLOR OF THE EXCHEQUER

FROM: J F GILHOOLY

DATE: 10 July 1987

Ch
 I think you need a view
 from the running costs side
 of the Treasury before you
 agree to send this.

AA

I agree:
 P.S. - see...

cc. Chief Secretary
 Paymaster General
 Sir P Middleton
 Mr F E R Butler
 Mr Anson
 Mr Kemp (o.r)
 Mr Luce
 Mr Chivers
 Mr Truman (o.r)
 Mr Graham
 Mrs Harrop
 Mr Bell
 Mr Cropper

GEOGRAPHICAL PAY VARIATION IN THE CIVIL SERVICE

1. Mrs Harrop's note below, with which I agree, describes the further work which has been done on this since Ministers last discussed it in February, and includes a draft minute and summary report which you might send to the Prime Minister. These papers would form the basis for the meeting of MISC 66 which I understand has been arranged to discuss the topic, on Wednesday 22 July. More than incidentally, although the approach and scheme outlined in these papers are an elaboration of the approach which Ministers discussed earlier, and although the report below is marked "HM Treasury" (reflecting the fact that we ran, and I chaired the Working Group), Treasury Ministers are not of course committed in any way by the report either in general outline, or as to detail.

2. The work which has been done on this reflects several factors. First, there is the line you opened up at NEDC last autumn (subsequently supported in speeches by Mr Kenneth Clarke and Mr Ridley) about the need for much greater

pay variation from area to area, to match local labour market conditions better. In this context, a move on geographical pay for the civil service makes sense.

3. Moreover, there is a good case for a move in management terms, as the attached papers bring out. In some parts of the country staff, especially junior grades, are easy to recruit and retain; in others (mostly, but not quite exclusively London and the South-East) they are not. Quite a lot of time was spent in the working group reining back the enthusiasm of those Departments with significant numbers of staff in London and the South-East, from much more ambitious (and much more expensive) schemes than that below.

4. We have held back from seeking authority to put these ideas to the unions on the judgement that to have done so would have added to the problems of the industrial action - support for which has been greatest in those areas where staff would not benefit from geographically differentiated pay. We let the unions know in March that we would be bringing proposals forward "in due course".

5. The situation is now changing. The CPSA is alone in continuing to seek continued industrial action - and we shall know towards the end of next week whether they have succeeded in getting a majority in their ballot for an all-out strike. Among the other unions, especially the Society and IRSF, there is speculation and some wild rumours about we plan to do, and we have reached the stage where it would be helpful to kill those rumours off.

6. In addition we now have the pressures, as Mrs Harrop says, to complete the 1987 London Weighting negotiations with the Council of Civil Service Unions, which until now both sides had recognised could not be dealt with while the industrial action was at its peak, but on which the CCSU is beginning to press us very hard. Our position here is more difficult than in recent years, partly because of the recruitment and retention situation in London and partly because of the moves which other employers have made on London Weighting: most recently and most spectacularly the Clearing Banks. It could prove very difficult to resist a large and expensive increase in London Weighting this year - which would put great pressure on 1987-88 running costs. But we believe we can moderate that substantially if we can put into play reasonably quickly the proposals for geographical pay outlined below. Deferment of the introduction of the scheme until early next year or even 1 April 1988 would mean that little or none of the estimated £20 million a year full year cost would fall on this year's running costs; and a start from April 1988, particularly would enable us to score this in as part of the 1988 pay settlement.

7. As to the features of the scheme, these are set out in Mrs Harrop's minute. the tricky areas - apart from cost - will be the handling of presentation to unions and to staff; and making sure that the coordination machinery works well to minimise (though it cannot perhaps wholly eliminate) the risk of brush fires of industrial action. Essentially, the scheme is a discretionary one, but experience of past limited experiments with Departmental discretion over pay has been poor. The machinery, although tedious, would we hope help avoid the risk of a series of strikes such as occurred in DHSS at Reading early this year over the payment of discretionary computer allowances.

8. The draft minute to the Prime Minister (which I have slightly amended) assumes that you will recommend the scheme to her. The minute would need to be circulated on Thursday next and we would wish to update it if we have news of the CPSA ballot result, or if there are any further developments with the CCSU on London Weighting.

9. We would of course be happy to discuss this with you if you wished.



J F GILHOOLY



FROM: A C S ALLAN
 DATE: 13 July 1987

BR 15/7
 17/7
 21/7
 28/7

MR GILHOOLY

cc PS/Chief Secretary
 PS/Paymaster General
 Sir P Middleton
 Mr F E R Butler
 Mr Anson
 Mr Kemp
 Mr Luce
 Mr Scholar
 Mr Turnbull
 Mr C C Allan
 Mr Chivers
 Mr Cropper

GEOGRAPHICAL PAY VARIATION IN THE CIVIL SERVICE

The Chancellor was grateful for your minute of 10 July. He would like to discuss this briefly with those involved with running costs, to see how the initiative you propose would link in, both in presentation and in substance, with your stance on running costs.

2. The most convenient opportunity will be to do this at the meeting we are having on running costs at 6 pm this afternoon. I should therefore be grateful if you and others could be ready to discuss this then.

AWK

pp A C S ALLAN

38
196

I agree
15/7

To PMG's letter. No need for this. I told John Graham 27/7

- 1. MR GILHOOLY
- 2. APS/CHANCELLOR

FROM: J GRAHAM
 DATE: 14 July 1987
 cc Chief Secretary
 Paymaster General
 Sir Peter Middleton
 Mr F E R Butler
 Mr Kemp
 Mr Luce
 Mr Mountfield
 Mr Chivers
 Mr Painting
 Mr Denison
 Mr Cropper

CR/letter to issue

(PS MISC 66 for next week has definitely been cancelled)

CR 15/7

I wouldn't like writing ? Don't see it's worse it

MISC 66 AND DS PAY

There have been two recent letters on pay issues from the Foreign Secretary and as I mentioned on the 'phone there is a case for treating them separately. We suggest the Chancellor responds to the Foreign Secretary's letter of 1 July to the Prime Minister which dealt with MISC 66 and wider issues.

2. The Foreign Secretary's letter of 9 July deals with more detailed proposals for Diplomatic Service staff, and it would be more appropriate in this case for the Paymaster General to reply.

- now send

3. I attach a revised version of the draft the Chancellor might send. Pay 3 will be sending a separate submission to the Paymaster General's Office on the detailed proposals in the Foreign Secretary's letter of 9 July. These drafts include appropriate cross-references as necessary.

Pse attach PMG's letter for me to see

J GRAHAM

DRAFT LETTER

To: The Foreign and Commonwealth Secretary

From: Chancellor of the Exchequer

Copies: Sir Robert Armstrong
Richard Luce

I doubt this is necessary

MISC 66

Thank you for copying to me your letter of 1 July to the Prime Minister and for your letter to me of 9 July.

[As regards your letter to the Prime Minister,] ^I in view of the close relationship between terms and conditions in the Civil Service and ⁱⁿ the Diplomatic Service, I agree that it would be useful for you to attend MISC 66 meetings when wider questions of pay and conditions are to be discussed.

We have already exchanged letters on your particular concerns ^{about} [over] the terms and conditions of the Diplomatic Service. [and] in my letter to you of 13 May 1987 on public sector pay and South East supplements I ^{agreed} [accepted] that our officials should consider together ways forward within the constraints of existing running costs.

Since then my officials have [responded to a proposal from yours and] ^{to} agreed ^a discretionary scheme for paying a language allowance to spouses of Diplomatic Staff.

Your letter of 9 July raised further proposals on allowances for difficult posts and on more frequent travel from distant posts.

I have asked the Paymaster General to respond to you on these points. If there are other remaining issues I remain content, in the first instance, for these to be discussed between our officials.

I am copying this letter as yours.

NIGEL LAWSON

FROM: J PETTIFER
15 JULY 1987

APS/CHANCELLOR

FOREIGN SECRETARY'S LETTER OF 26 JUNE

IRD) have sat on this pending resolution of the check-off issue. I imagine you will now have seen Simon Judge's round robin of 14 July, which implies that there is no question of check-off being suspended (if at all) from end-July (we are past the computer deadline, anyway).

2. I'm not sure whether a reply to the Foreign Sec's letter is now necessary. Perhaps you'd let me know. If you think some sort of response should be sent, I'll gladly provide a draft which you might send to your opposite number in the FCO.

John Pettifer
IRD
X4688

PS/PMG.

I think we do ^{not} need to reply to this.
Do you agree?

APS/CX.

I agree, as does Robert

CR 15/7

Culshaw in Sir G Rome's office. SB 15/7

Pape
Ple

FROM: L G PAINTING

DATE: 15 July 1987

1. MR KEMP
2. PAYMASTER GENERAL

cc Chancellor
Chief Secretary
Sir Peter Middleton
Mr F E R Butler
Mr Luce
Mr Mountfield
Mr Gilhooly
Mr Chivers
Mr P G F Davis

DIPLOMATIC SERVICE: CONDITIONS OF SERVICE OVERSEAS

The Foreign Secretary's minute of 9 July refers to two quite distinct matters which his officials expect to raise with us shortly:

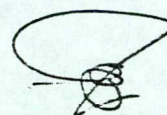
- a. allowances for specially difficult posts; and
- b. journeys home from comfortable but distant posts.

2. We have already gone a long way to meet the FCO on a. without overtly introducing 'danger money' or of risking the tax-free status of the existing allowances. The existing formula is however unlikely to work for the new proposals and we may have to swallow hard to accept them. But we can wait and see.

3. I was unaware that the FCO were going to raise b. above and I must say that I am a little surprised to see them come back on it. It is an example of the kind of low-priority incremental progression regularly being attempted by the FCO which, once conceded, forms a first call on available cash in the future and contributes to extra PES bids (which always, of course, appear as high priority - and different - items). Our reason for resisting this sort of thing has not merely been that of repercussions elsewhere but frankly of straightforward low merit when set against the backcloth of pay and conditions generally. There is no evidence of low morale amongst diplomatic staff in Japan, Australia and

the South Pacific, where they already enjoy significant benefits over their colleagues in ODA and the rest of the Home Civil Service. It happens that Treasury inspectors have visited all these places in recent months and although it is true that the staff are always asking for more, it is equally true to say that the places are very popular.

4. Lest silence is taken as further encouragement, I recommend that the Paymaster General should send an acknowledgement to the Foreign Secretary along the attached lines. The Chancellor is being briefed to reply separately to the Foreign Secretary's letter of 1 July to the Prime Minister about attendance at MISC 66 meetings. This letter also voiced concern about the adequacy of certain Diplomatic Service terms and conditions and a suitable cross reference has been incorporated into the proposed response from the Chancellor.



L G PAINTING

PS. The FCO's detailed proposals have just arrived. The arguments for further improvements in respect of the more comfortable but distant posts are predictably weak by comparison with those for the difficult and dangerous parts of the world. We of course will need to consider the merits of both proposals very carefully in the wider context, in conjunction with the Expenditure division. In the meantime, it would remain appropriate at this stage if the Paymaster General were to signal a slightly discouraging response on the more comfortable posts, as proposed.

L G P

7004/5

DRAFT minute from Chancellor to:

The Foreign and Commonwealth Secretary

DIPLOMATIC SERVICE: CONDITIONS OF SERVICE OVERSEAS

Nigel Lawson has asked me to thank you for your minute of 9 July.

2. 'Danger' money can raise difficult issues - and there could be tax problems - but I have asked my officials to look at your proposals on difficult posts carefully.

3. Your other proposal for the more comfortable posts is presumably relatively low on your scale of priorities at a time when you are forecasting an increased PES bid next year. Officials can look at the details, but frankly I am not very hopeful about this one.

PETER BROOKE

psp

FROM: A C S ALLAN
DATE: 16 July 1987

MR KEMP

cc PS/Chief Secretary
PS/Paymaster General
Sir P Middleton
Mr F E R Butler
Mr Anson
Mr Luce
Mr Gilhooly
Mr Chivers
Mr Pettifer
Mr Woodall
Mr Cropper

CIVIL SERVICE PAY DISPUTE

The Chancellor was most grateful for your minute of 16 July, reporting that the CPSA ballot on all-out strike action had resulted in a massive "No" result.

2. The Chancellor congratulates you on all your hard work in achieving such a satisfactory outcome to this long-running dispute. He very much agrees with your comments about the good example set to other employers, public and private - including other Departments!

ACSA

A C S ALLAN

FROM: E P KEMP
16 July 1987

CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary
Paymaster General
Sir Peter Middleton
Mr F E R Butler
Mr Anson
Mr Luce
Mr Gilhooly
Mr Chivers
Mr Pettifer
Mr Woodall
Mr Cropper

272 y
739 wo

CIVIL SERVICE PAY DISPUTE - CABINET TODAY

You and your colleagues of course have seen in the Press the results of the CPSA ballot on all-out strike action, which has resulted in a massive "no" result - some 53,000 votes against and 19,000 votes in favour.

2. This means the end of this four month long dispute. One by one the unions originally in dispute (representing over 300,000 civil servants) have retired; the IRSF on an earlier ballot of their members, NIPSA on a later ballot, the Society by way of suspension when they saw the action was fizzling, and now the CPSA at the hands of their members. The cost to the Official Side has been minimal in terms of the public finances and in terms of inconvenience to the public. Per contra the unions have gone back to work without a penny more than they were offered at the beginning and bearing a number of scars of battle; the strike has cost them a good deal of money (we hear the CPSA is nearly bust now), we have taken the opportunity of moving forward on check-off to get this weapon primed for the next occasion, we have demonstrated only too clearly to rank and file that the union bosses are not people who they can rely on, and we have demonstrated the futility of following Militant. We have also buttressed and emphasised our policy of getting more and better flexibilities into the Civil Service pay system, with all the unions now recognising first that when we say owt for nowt we mean it, second

that geography and all that is going to come, and thirdly that it could pay them to see things our way on new technology, the FMI, and that sort of thing. And we have, I hope, set a good example to other employers, public and private, by way of wage restraint and standing fast in the face of unreasonable demand - though whether they will take any notice remains to be seen.

3. Of course there is a downside to this; industrial relations in the Civil Service are now at a pretty low ebb. But this is something which if Ministers so wish they can now turn to, and it may be that before we get to the next pay round - perhaps in the Autumn or thereabouts - Ministers will want to talk informally, perhaps in MISC 66 or perhaps a smaller group, about their attitude to the Service over this Parliament. I am quite sure that "Royal Commissions" and the like - which one or two of the Civil Service unions would dearly love - are absolutely not the answer. But there may be aspects of the way we manage the machine which would be worth attention.

4. No doubt you will want to report some of this to Cabinet. Our attitude to the Civil Service generally, and the CPSA in particular, is now that we should now get back to normal business and resume negotiations over outstanding matters. This most certainly does not mean sudden deals involving money or anything like that. But it does represent a return to normality. Indeed there are as you know a number of outstanding matters which we still have to deal with, even in relation to 1987, including the question of London Weighting and shortages in London and the South East. On that, a MISC 66 meeting was to have been held next Wednesday, but I think you are going to suggest that this should now be cancelled, given the way there is no strike now to discuss, and the question of geography etc can be tackled in correspondence. If you are still of that mind your office may like to pursue the matter with the Cabinet Office and/or No 10.

already in hand



E P KEMP



PAYMASTER GENERAL

Treasury Chambers, Parliament Street, SW1P 3AG

pur CC
 PS/CHANCELLOR
 PS/CST
 SIR P MIDDLETON
 MR FER BUTLER
 MR KEMP, MR LUCAS
 MR MOUNTFIELD, MR PAINTING
 MR SILHOOLY, MR CHIVERS
 MR P DAVIS

The Rt Hon Sir Geoffrey Howe, QC, MP
 Secretary of State for Foreign and
 Commonwealth Affairs
 Downing Street
 London SW1A 2AL

16 July 1987

Dear Geoffrey,

DIPLOMATIC SERVICE: CONDITIONS OF SERVICE OVERSEAS

Nigel Lawson has asked me to thank you for your minute of 9 July.

'Danger' money can raise difficult issues - and there could be tax problems - but I have asked my officials to look at your proposals on difficult posts carefully.

Your other proposal for the more comfortable posts is presumably relatively low on your scale of priorities, at a time when you are forecasting an increased PES bid next year. Again, officials can look at the details, but frankly I am not very hopeful about this proposal.

Lms ever

Pm

PETER BROOKE



1. ~~AL~~
2. b/f with advice (A)

MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

MO 20/17/6L

TELEPHONE 01-218 9000
DIRECT DIALLING 01-218 2111/3

23 July 1987

Dear Nigel,

CIVIL SERVICE PAY

CH/EXCHEQUER	
REC.	24 JUL 1987 ✓ 247
ACTION	MR KEMP
COPIES TO	CST PMG
	SIR P. MIDDLETON
	MR TER BUTLER
	MR ANSON MR LUCE
	MR CHIVERS MR GILHOLLY
	MR TRUMAN MR GRAHAM
	MR HARROP MR WOODALL
	MR CROPPER

Thank you for your letter of 6th July. I certainly agree that we must not let an incorrect perception of Civil Service pay get abroad. However, even allowing for all the problems of statistics, I believe that your statement of the position is arguable. The point of difficulty concerns the base-line in April 1979.

In mid-April my officials sent to yours figures (reproduced in the annex to this letter) which show for the administrative grades from Assistant Secretary to Administrative Assistant declines in real terms of between 11.5% and 6.0% between April 1979 and April 1986. On the basis of these figures what I said in my letter of 26th June was correct, and reflects the position as the majority of Civil Servants understand it.

We heard nothing from the Treasury on these figures until last week. Your officials then sought to argue that because the full

The Rt Hon Nigel Lawson QC MP



implementation of the rates appropriate to 1st April 1979 had been deferred to 1st January 1980, those concerned had had an additional increase then. (Significantly the deferred 1st April 1979 rates were recognised as valid from 1st April 1979 for the purposes of pension.) I fail to see how any considered judgement could conclude that deferment of money for nine months turns a loss into a gain.

I do recognise, of course, why the Treasury would take that line in negotiation with the unions. But we are concerned here with establishing the true position for the Civil Service. If on reflection you still have doubts, I suggest that our people get together to prepare an agreed statement of facts.

I am sending copies of this letter to members of the Cabinet, the Minister of State at MPO, and to Sir Robert Armstrong.

Yours truly,

George Younger

MOVEMENTS IN SCALE MAXIMA FOR ADMINISTRATIVE GRADES 1979-1986

GRADE	APRIL 1979	APRIL 1986	% CHANGE SINCE APRIL 1979	% CHANGE SINCE APRIL 1979 IN REAL TERMS
RPI (1974 = 100)	214.2	385.3	79.9	-
AA	3167	5357	69.2	-6.0
AO	4000	6671	66.8	-7.3
EO	5700	9452	65.8	-7.8
HEO	7250	11941	64.7	-8.4
SEO	8900	14629	64.4	-8.6
GRADE 7	11750	19465	65.7	-7.9
GRADE 6	15000	24302	62.0	-9.9
GRADE 5	17000	27065	59.2	-11.5

FROM: MRS M J HARROP

DATE: 24 July 1987

- 1. MR GILHOOLY
- 2. MR KEMP
- 3. CHANCELLOR

24/7
She slightly changed the
covering note. It is for
question whether you should
take Prime Minister at (was)
the security of state to Dept. as
feasible > would go to now.

- cc Chief Secretary
- Paymaster General
- Sir P Middleton
- Mr F E R Butler
- Mr Anson
- Mr Luce
- Mr Scholar
- Mr Chivers
- Mr Culpin
- Mr Truman
- Mr Bell
- Mr Graham
- Mr Cropper

27/7

GEOGRAPHICAL PAY VARIATION IN THE CIVIL SERVICE

At your meeting on 13 July you decided that the meeting of MISC 66 scheduled for 22 July should be cancelled, but that, subject to Sir P Middleton's views, the proposals contained in my minute of 9 July should be put to the Prime Minister. We have now had a meeting with Sir P Middleton, who agrees that you should minute the Prime Minister on the lines suggested earlier. The best day to send the minute would be Monday 27 July, after the Cabinet on public expenditure but before Mr Kemp meets the unions about London Weighting on 28 July.

only received late on 27/7

2. I therefore attach a revised version of the draft minute, amended to ask for clearance in writing. It is copied to all Cabinet members, rather than only those belonging to MISC 66. Some earlier papers have gone to the Cabinet and there are Ministers with a strong interest, such as the Lord Chancellor, who are not members of MISC 66.

3. The one outstanding point is the timing of the introduction of the scheme. Practical considerations rule out a date before 1 January 1988, and pressures on running costs argue for delay until 1 April. The minute, as now drafted, points towards 1 April but leaves it open to departments to argue for a date of 1 January.

The exact timing can be settled in the light of their comments, but approval in principle is needed now so that we can start talks with the unions and ask departments to prepare their detailed plans.

4. RCM are content.

MJH.

MRS M J HARROP

psl/38A

DRAFT MINUTE FOR THE CHANCELLOR OF THE EXCHEQUER TO SEND
TO:
PRIME MINISTER

CIVIL SERVICE PAY - LONDON AND THE SOUTH EAST

Earlier this year we discussed in MISC 66 the associated problems of Civil Service recruitment and retention in the South East and other high cost areas, and the ~~need to~~ ^{desirability} get more geographical variation into Civil Service pay generally. Further work has now been done by officials, and the attached note by the Treasury summarises the scheme now proposed. In brief, this proposes the introduction of a system of additions to pay to be given on a selective and discretionary basis in areas of particular difficulty.

2. The concept, thus, is simple enough, and I am sure we must go ahead with it. It is going to cost some money - which Departments must find from their running costs - but the scheme is unlikely to impact very much if at all, on this financial year, and I hope we shall be able to devise an approach which means that there is a degree of optionality for any particular Department in whether or not they engage in any particular outlay here. In any case, it is certainly vastly cheaper than an across the board increase in London Weighting, which seems to be the approach some other employers are taking, if only because the lack of selectivity in this approach makes for a great deal of "dead weight". It will help further to break up the Civil Service pay system, which

g. get

desirability

1. The...

to me that is the...

FERB amendment

I hope very little if any in

Went

despite the number of developments recently is still too rigid, and will be an important step in helping to tilt the total pay bill over time in the direction of those areas - geographical, merit and skill - ~~towards areas~~ where more money is needed and away from others. The unions are unlikely to welcome it, but in the aftermath of the strike, and handled properly, I think we will be able to get the scheme introduced. In any case from the point of view of the staff, doing nothing is not an option, if only because of the need to wrap up this year's negotiations over London Weighting proper where our offer of 4½ per cent from 1 April has been rejected.

3. I propose, therefore, that my officials should now take steps to get the scheme introduced, in association with on the one hand Departments and on the other the Civil Service unions. I should emphasise that it is something of an experiment, and how it will work remains to be seen. But I am sure it is a path we have to go down.

4. I am copying this minute to the other members of Cabinet, the Paymaster General, the Minister of State (Privy Council Office) and Sir Robert Armstrong.

GEOGRAPHICAL VARIATIONS IN THE PAY OF THE
NON INDUSTRIAL CIVIL SERVICE

Note by HM Treasury

1. A Treasury-chaired Working Party was set up in November for two main reasons: the increasing concern of Ministers about the effect of national pay rates on the economy as a whole; and the practical problems of recruiting and retaining civil servants of adequate calibre in some parts of the country. The Working Party focussed on the managerial aspects and reported in February.

2. The evidence collected by the Working Party confirmed the geographical imbalance. Most vacancies can be filled, but in some places only with staff who are of a barely acceptable calibre, and after considerable time and effort. The same places tend to have relatively high resignation rates. There is no doubt that very high rates of turnover, and inexperienced and low calibre staff, lead to costs and inefficiencies. On the other hand there are areas where there are few resignations and embarrassingly large numbers of well-qualified applicants for the vacancies which do arise.

3. The problem areas are mainly in London and parts of the South East of England, but there are localised pockets elsewhere. Some towns in the South East, such as Reading, face difficulties as severe as in the worst parts of London; but other parts of the South East have fewer problems than in pockets elsewhere in the country. Even within one area, there are variations between departments and, indeed, between particular offices. However, the problem in London and parts of the South East is a consistent theme. The reasons are a complex mix, and pay is certainly not the whole story; but the Working Party agreed that the evidence on recruitment and retention was strong enough to justify paying relatively more in the problem areas.

4. Two new types of payment were recommended: the South East Supplement, and Local Pay Additions. The former would be payable

in a new zone, very roughly a few miles beyond the M25 but with extensions along the M3 and M4; and the latter in the rest of the country. Both would be additions to existing salaries and, where appropriate, to London Weighting, and would mainly apply to relatively junior staff, in particular the clerical and secretarial grades and Executive Officers.

5. Because of the very localised nature of some of the problems, individual departments would be able to decide how much to pay in different places, subject to Treasury approval, and according to common criteria. This approach also helps to contain the cost, which must be found from existing running costs limits. The suggested maximum for the South East Supplement is £500 pa, with the average payment in the zone not normally exceeding £200; in the rest of the country the maximum would be £400. Proposals to make either type of payment would have to be justified on recruitment and retention grounds.

6. However, this discretionary approach carries the risk of industrial trouble as staff are not used to the idea that people of the same grade and seniority will not necessarily receive exactly the same pay, even if they work in the same town. Careful handling would be needed, and departments would have to keep in close touch at local level. At present there appears to be surprisingly little contact between departments at local level, and it would therefore be necessary to set up a network of "lead departments" who would liaise with other departments with local offices about proposals to pay a South East Supplement or Local Pay Addition. Cases of disagreement would be referred to the Treasury. In time, the "lead departments" might take on a wider role, certainly in improving communication between departments at local level and possibly in arranging joint action eg on recruitment exercises.

7. Since the Working Party reported there has been further work by officials. This included a "dry run" of how the scheme would work across the UK for six departments; and, for more departments, in four places - Greenwich, Cambridge, Guildford and Glasgow. A number of Ministers also wrote with comments. The upshot of this work is that there is general agreement that the proposed scheme

is feasible, but three major points emerged: the question of how much money should be available; the industrial relations dimension; and the bureaucracy involved. Each is discussed below.

Level of Payment

8. Some departments have argued that £500 is not enough to tackle their problems of recruitment and retention in parts of the South East as competing employers are paying at least £1000 more than current civil service rates. If the payments had no effect on easing the problem, the money would be wasted. On the other hand, there should be a psychological effect from giving something, and £500 is a significant addition to the salary of an AO. There is also the question of whether departments could afford more out of their running costs. The scheme would be experimental and the results closely monitored; Ministers could, if they so wished, decide to increase the maximum payments during the two years for which the scheme would run, in the light of experience.

9. The £200 average limit in the South East also causes problems for some departments. In particular, those with only a headquarters office in central London have argued that they would effectively be limited to £200 a head, as it would be difficult to treat staff in the same office on a different basis. Yet a department with an office next door, but also offices scattered around the South East, might well pay an extra £500 a head in central London, while keeping within the £200 average. The Department of Employment have raised a slightly different point. They, like many departments, want to focus on AOs - but they have a very high proportion of their staff at this level. So their room for manoeuvre is more limited than departments with a more even spread of grades.

10. The Treasury's view is that both figures should continue, but that there might be some slight flexibility on the £200 to deal with exceptional circumstances. Any such case would, however, have to be approved specifically by the Treasury. There would be no flexibility on the £500 (except for the secretarial group in Inner London, who already receive £400 as a SPA and would be entitled to up to £200 extra). However, there could be an interim review

of some aspects of the scheme, including the amounts, before the full review after two years. The cost of increasing the amounts now would put too much of a strain on running costs; some departments are already worried about this with the amounts now proposed. There is no question of providing "new money" for these payments.

Industrial Relations

11. The dry runs underlined the need for departments to work together at local level. Different departments did, as expected, plan to use the scheme in different ways, and this would lead to variations in the amounts paid to people of the same grade and seniority in the same town, but in different departments. Trade unions would obviously try to pick off one department against another at local level; and then one locality against another at departmental level. Their success in this would depend partly on the management approach - and also on the attitudes of the unions at national level.

12. Most departments thought that some variations at local level would be tolerable; local office staff in the Inland Revenue and DHSS already have a pay lead, which is generally accepted. But close liaison between departments would be extremely important, in particular in cases where there were several Government offices on one site. Where two departments jointly ran one establishment (as opposed to having different offices on the same site) the same payments would probably have to be made by each, but this should be looked at on a case by case basis.

Administration

13. It must be recognised that the schemes would involve extra administration. There is at present no machinery for local consultation between Departments, but this is crucial; there is therefore no escaping extra administrative burdens on departments which will be greatest in the first six months or so when the workings are set up, involving the creation of "lead departments" to liaise with local offices, with cases of disagreement being referred to the Treasury.

4. Another aspect is that it is difficult to lay down precise operational criteria for payments. The proposed schemes involve discretion for departments, and the circumstances of each varies. For example, some find it difficult to recruit staff, while others, even in what are generally problem towns, can recruit good quality staff, but have high wastage after about two years when training is complete. One advantage of the approach is that it should allow departments to tailor payments to their needs. However, central control and co-ordination is vital, in particular with a new scheme, if we are to have any hope of avoiding the kind of dispute which arose in Reading when computer specialists in two different departments, but working together, were paid different amounts. The preparation and consideration of these plans will involve a considerable amount of work, for departments and the Treasury, but the working group agrees that this is unavoidable if the schemes are to get off the ground.

Timetable

15. If Ministers agree to the introduction of the new schemes the next steps are:-

STAGE 1 - 2-3 months from Ministerial approval

Treasury issues requests for departmental plans
 Treasury opens discussions with national unions
 Departments prepare plans, consulting local managers.

STAGE 2 - 3-4 months from Ministerial approval

Treasury considers departments' plans, and gives formal approval or comments.

STAGE 3 - 4-7 months from Ministerial approval

Departments consult at local level
 Cases where departments cannot agree referred to the Treasury

Amendments to original plan fed back to the Treasury, who would not have to give formal approval provided that the changes were within the scope of the original plan.

16. This timing is based on the views of departments on how long would be needed for each stage. In practice it means that the schemes could not be implemented before 1 January 1988, and that even that date would be difficult to achieve.

17. The timing assumes that there will be no pilot exercise. The Working Party examined this possibility, but decided that it would lead to delay (a period of about six months would be needed for a meaningful pilot) and would allow the trade unions to concentrate opposition on the two or three places selected. It was not clear what would be learnt from a pilot exercise, and most departments agreed that the schemes should be implemented across the board rather than piloted first.

HM TREASURY
July 1987

CHANCELLOR OF THE EXCHEQUER

FROM: J F GILHOOLY
DATE: 27 July 1987

- cc. Chief Secretary
- Paymaster General
- Sir Peter Middleton
- Mr F E R Butler
- Mr Anson
- Mr Luce
- Mr Chivers
- Mr Culpin
- Mr Truman
- Mr Graham
- Mrs Harrop
- Mr Cropper

Ch
Pay Division seem to me to be over-reacting. I have toned letter down. Worth anything has a word with Younger? margin of Cabinet?

X

Atkinson

Thats. I will try to do X. The MOD is v. silly: I from a look. You amend up OK

CIVIL SERVICE PAY: MR YOUNGER'S LETTER OF 23 JULY

1. Mr Younger's latest letter is not helpful. MOD are showing signs of swallowing the unions' line and accepting that the position at a particular date in the past should influence pay in the future.
2. Statistically, this is a tricky area. The figures one finds can vary widely depending on the exact starting and stopping dates chosen, the grade looked at, and so on. That is why we generally avoid getting sucked in to arguments on these lines.
3. More importantly, going down the route of examining historical statistics is beside the point. What matters is that civil service pay should be set in accordance with recruitment, retention and motivation needs, within what can be afforded. Digging into past movements is a fascinating business, but it tips over all too easily into arguments that this or that rate of pay, relative to an index like the RPI, or relative to other groups of employees, was the "right" one and should be restored.
4. We would therefore advise you against agreeing to Mr Younger's suggestion that officials get together to prepare "an agreed statement of facts."
5. On the detail of the letter, the main points are:
 - (a) the MOD figures are - as Mr Younger admits - based on the rates which would have been in payment on 1 April 1979 if the Government of the day had not decided to defer implementing the outcome of that year's Pay Research (comparability-based). He is right to say that pensions

This is at odds with you last letter (see X).

were paid according to notional rates (a practice which has since been changed) but serving staff certainly were not.

*over-
sensitive*

(b) There is an offensive suggestion that the Treasury lies to the unions in negotiations, and cannot distinguish between fact and fiction.

6. Finally, the letter says that the Treasury had received the MOD's figures in April. In fact they were tucked away in an annex to a letter about Armed Forces pay and allowances, and neither addressed nor copied to Pay.

↑ very odd; will investigate

7. I attach a draft reply to Mr Younger.

R. French

pp. J F GILHOOLY

DRAFT LETTER FROM:
CHANCELLOR OF THE EXCHEQUER

TO: SECRETARY OF STATE FOR DEFENCE

Copied to: Prime Minister
Members of the Cabinet
Sir Robert Armstrong

*Please type
for signature*

CIVIL SERVICE PAY

Thank you for your letter of 23 July. ~~I am very concerned about the direction this seems to be leading us in.~~

*There does not seem to be
any disagreement that,*

I have no difficulty at all in distinguishing between the true position, and the sort of point which is made by unions with an axe to grind in negotiations.

So far as the particular dates which you have selected are concerned, if one takes as the base the actual rates in payment on 1 April 1979, there have been

real terms increases for all the main administration grades, as I said in my

letter of 6 July. ~~Of course the results are~~ ^{results can be obtained} different if the calculations

are based not on what actually happened, but on what ~~might~~ ^{would} have happened if

~~the Government of the day had taken~~ ^{had been taken on} a different decision ~~on the~~ ^{comparability-based findings of Pay Research.}

how to implement the

I think we must avoid getting too bogged down in seeing what can be proved by these sorts of statistics.

There is a general and important point here. In this area, as in others, careful

selection of starting and finishing dates, (let alone using hypothetical rates)

can give widely differing results. Debates about these sorts of figures are sterile. Worse, they also entice one ^{It is all too easy to get down} down the route of arguing that there

is a "right" rate of pay which can be found by making comparisons with the past or ^{by examining} deciding where this or that group stood in a "pay league" at some time

in the past. What matters is that civil service pay rates should be set for circumstances of the day, according to what is needed to recruit, retain and motivate staff within what can be afforded. [For these reasons, I believe that no useful purpose would be served by taking these historical researches further, and unless you personally feel otherwise, I suggest we now let matters rest.]

I ^{am copying} [have copied] this letter, [~~as yours,~~] to the Prime Minister and other members of the Cabinet, and to Sir Robert Armstrong.

(NL)