

PO-CH/WL/0529

Part A

Part A.

CONFIDENTIAL
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**MANAGEMENT
IN CONFIDENCE**
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Begins : 14/9/89 .
Ends : 9/10/89 .

**THIS FOLDER HAS BEEN
REGISTERED ON THE
REGISTRY SYSTEM**

fo CH | NL | 0529 .
pt. A .

Chancellor's (Lawson) Papers:
Pay Settlement for Civil Service
Grades 5 - 7

DD's : 25 Year

[Signature]

15/3/96 .

fo CH | NL | 0529 .
pt. A .

PLP

Handwritten signature in red ink.

FROM: C W KELLY (PAY)
Room 120A/3
DATE: 14 September 1989
ext 4400

- 1. DAME ANNE MUELLER *agree @ 14/9* cc: Chief Secretary
- 2. CHANCELLOR Paymaster General
Sir Peter Middleton
Mr Anson
Sir T Burns
Mr Luce
Ms Young
Mrs Chaplin

ch/ Mr Kelly asks for a steer and seeks authority for 8.9% if attainable. We must surely stress in addition to affordability, that this is quite the wrong year to respond lavishly to the levels survey and seek maximum restraint on the jam tomorrow principle.

GRADES 5 TO 7 PAY NEGOTIATIONS

We have reached the point where it would be sensible to seek your approval for the position we are taking in the negotiations with the unions over this year's pay settlement for Grades 5 to 7.

2. I am afraid you will not find our conclusions very agreeable. If we want agreement, another substantial settlement following the IRSF seems inevitable. I do not think I can deliver at much less than 8.9 per cent; I am not sure I can get agreement from all three unions even at this level.

3. In the circumstances I have thought it worthwhile going into the issues at some length.

Background

4. These are the first negotiations under the terms of the 1988 Grades 5 to 7 long-term pay agreement. As such, they are informed by the results of a pay levels survey and informed, but not constrained on this occasion by the interquartile range of pay movements in the private sector (6.5 per cent to 8.9 per cent for total pay).

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5. We had expected Grades 5 to 7 to be the most difficult of the three sets of negotiations with 1 August settlements this year. We have not been disappointed. The FDA have been determined to squeeze every last drop out of the levels survey information. They have also had problems in sorting out their own negotiating objectives, because of the competing interests of some of their members. The other two unions (the IPMS and the NUCPS) have become rather impatient and are now (with my encouragement) putting on the pressure for early progress. We are likely to come to some kind of decision point within the next week.

Levels survey

6. The picture presented by the levels survey is complicated and, as expected, capable of more than one interpretation. But certain features come out of it clearly whatever interpretation is used:

i. There is a considerable differential across the board in comparable private sector salaries in favour of London and the South East, much more than is allowed for by our current London Weighting.

ii. However you make the basic comparison, Civil Service salaries at Grade 7 and Grade 6 are closer to private sector salaries than at Grade 5.

iii. Lawyers as a group are paid particularly well outside. We are well adrift of the high salaries paid for lawyers at the equivalent of Grade 5 level.

iv. Benefits are very significant at these levels. Almost everyone gets a car and private health insurance. A small proportion also get mortgage assistance and there is a wide range of other less significant benefits. In total an average private sector benefits package is worth between £2,000 and £4,500 at Grade 7 level, depending upon the method of valuation used, and £4,000 to £5,000 at Grades 5 and 6.

v. This is, however, before taking account of the broad advantage for the Civil Service in terms of pensions, where the PCSPS is better than the lower quartile of outside comparators by about 4 per cent of salary (though worse than the upper quartile by about 2 per cent) and leave, where these grades have about 6 days more than the private sector (worth about 2½ per cent of salary).

But the high fliers cant in practice take all their leave

7. We have had to take account of all of these factors in the discussions so far, though without of course conceding that the results of the survey are in any way deterministic.

8. The most difficult discussions have been about what the figures show for general levels of pay. There is a lot of scope for argument here, principally about how to take benefits into account. The unions are claiming that even to get within their calculation of an interquartile range of pay and benefits combined (which they would regard as the minimum yard stick) would require increases as follows:

	<u>Grade 7</u>	<u>Grade 6</u>	<u>Grade 5</u>
In London	10.0	11.7	23.7
Outside London	8.6	2.6	17.8

and that to reach the median would require increases very much larger than this.

9. We have made clear to the unions that we are not in any way obliged to match any figures that come out of the levels survey, not even the lower quartile. We have also told them that, even if we were, we do not accept their method of calculation. On our interpretation the increases required to get within the interquartile range are rather more modest after taking account of our lower valuation of some benefits, the fact that some of the benefits may not be worth to the recipient in his own valuation

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the equivalent money cost of providing them and the fact that the lower quartile of most benefits is well below the median.

10. If there is such a thing as objective truth in this area it probably lies somewhere between these two positions.

Recruitment and retention

11. For Grades 5 to 7 as a whole the retention position remains reasonably satisfactory. Resignation rates are currently running at only about 1 3/4 per cent a year (2.4 per cent in London). Even amongst staff originally recruited as AT/HEO(D)s resignation rates were only 2.8 per cent nationally in 1988, and have remained steady at around these levels for some years.

12. But Grades 5 to 7 are a broad church and many departments, including the domestic Treasury, have become seriously concerned about the size and quality of their stock of Grade 7s available for policy work. You may recall that this was the point which also came out most strongly in the discussions at MISC 66 earlier this year. There are also particular concerns about various specialist groups including lawyers at Grades 5 and 6, tax inspectors and, in the Treasury, economists. Moreover while recruitment in some areas has been going very well (including lawyers and cadet tax inspectors) there have also been some worrying signs. Last year's competition recruited more ATs than ever before. This year has been much less successful, even allowing for the inevitable consequences of the tightening labour market. Last year's direct entry Grade 7 competition was also less successful than its predecessor. In both cases there were special circumstances which partly explain the results and we have since improved AT/HEO(D) pay for the next recruiting round. But the signs are worrying nonetheless.

Our objectives

13. Against this background we are looking for a settlement with three main components.

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14. First, a fairly substantial across the board increase is inevitable, even allowing for the fact that we have done quite a lot for these grades over the recent past (4 per cent on 1 April this year as part of the phasing in of the new arrangements and the change in settlement dates, and the introduction of performance pay).

15. Second, we want to include a fairly substantial differential in favour of London. All this year's settlements for other grades have included an additional spine point for London staff. At these levels this would be worth between £800 and £1,300. Unfortunately, a London spine point is more expensive here than for other grades because half of the staff concerned are in the London area. A spine point for London would cost around 2 per cent on the total pay bill (£9.25 million in a full year).

16. Third, we have been looking for ways of focussing as much as possible of any available cash on what most departments identify as their main problem area - policy Grade 7s. A London spine point would help here, though it is a fairly crude instrument for the purpose. In addition we have been looking at:

i. Removing a further point or points from the bottom of the Grade 7 scale. This would be particularly advantageous to fast streamers, because it is mainly they who enter at the bottom; SEOs tend to come in rather higher up. Raising the bottom of the scale does not give immediate help to those already above the minimum. But new promotees would gain an immediate benefit which would continue for most of their careers as Grade 7. Removing two points from the bottom of the scale would cost around £0.9 million in a full year.

ii. We already have the previous Paymaster General's agreement to a number of improvements to the excess hours gratuity for Grade 7. This is fairly trivial in the overall scheme of things. But it could substantially benefit those who systematically work very long hours (most of whom are policy principals in London) and would be helpful

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presentationally. We have therefore delayed announcing it so that we can present it as part of the outcome of these negotiations.

iii. We have been discussing with departments the possibility of introducing a facility of discretionary pay on a limited basis which would give Permanent Secretaries the discretion to use any point on the scale or range to retain their exceptional performers. Some departments have considerable reservations about this, feeling that it could demotivate others and turn everyone else's pay into a time wasting personal negotiation. There is undoubtedly something in both these points. But we have probably reached the point where it would be sensible to give them the discretion, whether they choose to use it or not, provided it is on an exceptional basis. We do not intend to negotiate this.

iv. The FDA also have ambitions to make changes to the arrangements for performance pay. I doubt, however, whether we have yet reached the point where it would be sensible to make any changes in this of other than a cosmetic nature.

Special groups

17. Apart from this, it has been our objective to keep any other targeting to a minimum. This does not seem to us to be a year to make great play with the flexibilities part of the agreement, other than for London, if we can avoid it. Most other departments share this view. But there are some difficulties:

i. Lawyers. A great deal has been done for lawyers this year in the aftermath of the Andrew report. DTI apart, no other department wants us to do anything more. But the levels survey evidence is striking and, although he has not seen it, the Attorney General may well press you for something more. Privately the Lawyers Management Unit do not really expect us to concede this, or really believe it to be justified. But they would like us to find some way of doing

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something at Grade 6 (though this would not be supported by the levels survey evidence).

ii. Tax inspectors. Ideally the Revenue would like to see further special treatment given to inspectors of taxes. The resignation rates in this group are rather higher than for Grades 5 to 7 as a whole (4 per cent in 1988-89). But I do not think they will continue to press this in the face of our opposition. The FDA/AIT are currently running it very strongly. But conceding it would open up the floodgates for other special claims and the other two unions are flatly opposed.

iii. Revenue policy staff. The Revenue attach rather more importance to doing something for those of their headquarters staff in all three grades who now work alongside tax inspectors in reorganised policy divisions. Ideally they would like to pay these policy staff exactly the same as tax inspectors. You rejected these arguments last year and we would advise you to do the same this year. Apart from the costs, there could be serious repercussions elsewhere, including in the domestic Treasury. We have therefore set our face firmly against the proposal. The Chairman feels very strongly about it and may well seek to raise it with you directly.

iv. There are various other very minor groups with claims for special treatment, including for example a handful of pharmacists in the Department of Health about which there has been recent Ministerial correspondence. We are not proposing to do anything about any of these in this year's settlement. But we will almost certainly have to return to some in the following months.

The across the board increase

18. The crucial factor in producing a settlement is going to be the size of the across the board increase.

19. I do not think that it is realistic to expect to reach agreement in current circumstances at anything less than 6.5 per cent (which together with an additional spine point would mean between 10.6 per cent and 11.3 per cent for those in London). The unions are currently claiming 9 per cent and will be pressing hard for 7 per cent (which is what the IRSF got).

20. Even at 6.5 per cent the overall arithmetic begins to look rather difficult. 6.5 per cent plus a spine point for London plus the cost of taking two points off the bottom of the Grade 7 scale adds up to 8.6 per cent. This is before adding in the cost of any further bits and pieces, of which there are bound to be some, and even if we include London Weighting in the base (which is, I think, legitimate since we are not increasing London Weighting this year). Doing anything for lawyers or tax inspectors would make the position worse. If we had to go to 7 per cent it would be higher still.

21. I have told the unions firmly that we intend to negotiate this year as if we were bound by the interquartile range, even though formally we are not. I think that they have now reached the point where they accept this, which would put a cap of 8.9 per cent on their aspirations. But they are also talking of staging with more in a later year.

Affordability

22. This is a relatively small group (19,000 staff) to which most departments attach priority. But the pay bill is quite substantial (£450 million) because average pay is relatively high. There is likely to be a considerable affordability problem at the level of settlement discussed above for a fair number of departments particularly those (including the Treasury) concentrated in London.

23. I have not yet consulted departments specifically about this. I did not think that it would be safe to do so and I did not want to until I had taken your mind. I have now set up a meeting for

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this purpose next Monday including the usual group of PEOs of the main departments. I will report again if they say anything which affects the picture significantly. But I would expect a number of them to say that they would find themselves in difficulties. A high settlement could lead to some in-year running cost bids and to further bids in the survey for later years. Even where this does not happen it is likely to make departments cling more tenaciously to the bids they have already made.

Union objectives

24. In general, the unions share our preference for putting as much as possible of any increase into the across the board element. But there is considerable tension in their position between lawyers, tax inspectors and others within the FDA and between the FDA and the IPMS and NUCPS. The latter two unions are both conscious that any claim for special treatment will be at the expense of the general increase and will benefit FDA members more than theirs. They also have other considerations because, unlike the FDA, they are not primarily 5 to 7 unions. The IPMS do not want any settlement to look significantly better than that which they won for the bulk of their members at the beginning of August, which had a 6.5 per cent across the board increase. The NUCPS do not really want us to go above the interquartile range, even if we were prepared to, because unlike any of the other unions they and the CPSA signed up to long-term pay agreements which constrained their first level survey negotiations next April to within the interquartile range. Neither will, however, want to be seen publicly to be pushing less hard for their members' interests than the FDA.

MPs

25. I ought to remind you that anything we do for Grade 6 pay will impact back on MPs' pay at the end of the year. MPs will already automatically get the 4 per cent paid on 1 April (even though their settlement date has not of course been changed). Anything given in the form of an across the board increase now would add to that. 6.5 per cent would mean an increase for MPs'

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of 10 3/4 per cent. This is, of course, a highly embarrassing figure, particularly in current circumstances.

Objective

26. We have known all along that a high settlement was in prospect here. Ministers identified Grades 5 to 7 in MISC 66 earlier this year as a priority. It is a group about which departments are very concerned from a management point of view and it is not surprising that they come out well from the levels survey evidence, particularly when account is taken of benefits. It is at these levels that the stretching of pay differentials in the private sector of recent years becomes apparent.

27. Nor can we ignore the levels survey evidence entirely if we want to retain any credibility in our good faith in signing the long-term pay agreement. It is, however, entirely legitimate - and helpful in these circumstances for us to use the upper quartile as a constraint on the response we make to the evidence of the levels survey.

28. Unfortunately, recent developments mean that a high settlement will attract even more attention in the outside world than it would otherwise have done, and will add to the general difficulty of restraining settlements elsewhere. We might think Grades 5 to 7 are a special case. But others will not and some will focus both on the 10½ per cent in London and the 4 per cent already received in April (albeit for a 16 month period).

29. It is also clear that anything we do do could well cause significant affordability problems for a number of departments both in year and in the future.

30. This is not a comfortable situation. My assessment is that we are not going to get agreement on a settlement which costs less than 8.9 per cent. I am by no means sure that we could get agreement even at that level.

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31. We are meeting the unions again on Friday and then again on Tuesday. They have promised to arrive then having sorted out their own position and, will expect me to respond fairly quickly thereafter. On one scenario we could, if we were prepared to take the plunge, have some hope of reaching an agreement fairly quickly, possibly even within a week or so. If we can settle for 8.9 per cent or below I would like to have the authority to do so, despite the presentational and affordability difficulties. If this is impossible, I will, of course, come back to you.

32. It would be helpful to have a steer before I see departments on Monday.

33. This submission has been shown in draft to RC.

CWK

C W KELLY

Handwritten red scribbles and initials, possibly "OK M" or similar.

FROM: C W KELLY (PAY)
Room 120A/3
DATE: 18 September 1989
ext 4400

CHANCELLOR

cc: Chief Secretary
Paymaster General
Sir Peter Middleton
Mr Anson
Dame Anne Mueller
Ms Young
Mrs Chaplin

*Content with the draft?
[I have suggested some amendments]*

*Jsh***GRADES 5 TO 7 PAY NEGOTIATIONS**

I attach a draft minute to the Prime Minister along the lines you requested.

2. One way of implicitly staging any increases would be to remit certain items in the negotiation for further discussion. But I do not think that that applies to the basic package. I had had that in mind as a possible fall back should we have had to concede anything else.

3. I do not, of course, underestimate the presentational difficulties of a settlement at the top of the interquartile range in current circumstances; and it may be that an agreed settlement there was not to be had anyway. But I do not think that the managerial consequences of failure to reach agreement on this particular set of negotiations for this particular group of staff should be underestimated.

CWK

C W KELLY

enc

DRAFT MINUTE

FROM: CHANCELLOR

TO: PRIME MINISTER

CIVIL SERVICE PAY

GRADES 5 TO 7 SETTLEMENT FOR GRADES 5 TO 7

at what a decision will have to be made.

We have ^{now} reached a ~~decision~~ ^{the} point in negotiations with the Civil Service unions about Grades 5 to 7 pay, the last of the three Civil Service negotiations with 1 August settlement dates. There are 19,000 staff affected, with a pay bill of £450 million.

2. Grades 5 to 7 are a key group of staff identified by colleagues as a priority area. You will recall the conclusions of the MISC 66 discussion some months ago. * (handwritten signature)

65% of staff constrained

3. These are the first set of negotiations for this group under their long-term pay agreement signed in July 1988. As such ~~it is~~ ^{it are} informed both by a survey of levels of pay and benefits for comparable jobs in the private sector and by a survey of settlements in the private sector in the twelve months up to last June.

rem-nation (including pension entitlements)

4. The levels survey can (and will) be interpreted in different ways. But on any interpretation it suggests that Civil Service pay at these levels has fallen well below comparable private sector rates, particularly in London and particularly when account is taken of the provision of cars and other benefits. The movements survey gives an interquartile range of 6.5 per cent to 8.9 per cent, with a median of 7.5 per cent.

1 below the

5. Against this background, ~~the least we can reasonably expect to~~ give as an across the board increase is the bottom of the interquartile range of 6.5 per cent. This is more generous than it sounds. These grades received 4 per cent on 1 April as part of the phasing of the new agreement which included a change in

Inskilution
of Professional
Manages & Specialists

London Revenue Staff Federation

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Settlement date from 1 April. The two increases together have therefore to cover a period of sixteen months. At an annual rate they are equivalent to 8.0 per cent. 6.5 per cent would also be the same as the (IPMS) grades received across the board on 1 August (without a levels survey). But it is less than the 7 per cent given in comparable circumstances to the (IRSF) last week.

6. On top of this, ^{however,} it is essential to do something additional in London. The pattern we have followed in previous settlements covering virtually all groups other than this is to give those in London an additional spine point, worth between £800 and £1300 at these levels. Payments of this kind, which would come on top of the existing London Weighting in Inner London of £1,750, would be more than justified by the differentials in private sector pay revealed by the levels survey.

7. We also want to shorten the Grade 7 scale by taking two points off the bottom. The benefit of this would go almost entirely to fast stream staff, whom departments are particularly worried about losing and who would then receive substantially larger increases on promotion to the grade.

8. Selectivity of this kind is precisely the kind of thing the flexible pay agreements are supposed to be about. Unfortunately targeting London is very expensive for these ^{key} grades because half of them are based here. The cost of a settlement of 6.5 per cent plus a spine point for London would be 8.4 per cent, even if we ignored ^(as I believe we can do for muscular purposes) the cost of scale shortening (a further 0.2 per cent). This would be close to, but ^{below} not at, the top of the interquartile range.

9. A settlement of this size would clearly be very uncomfortable in current circumstances. We would ^{of course} seek to present it as a settlement of 6.5 per cent with special payments in London. We would point to the fact that this is a good example of the kind of selectivity we are seeking to encourage in others; and we would point out that this is a crucial group of staff whose private sector analogues have been enjoying substantial and generally unpublicised pay increases over the last few years. But the press

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would be bound to fasten on the largest figures - the overall cost of the settlement and the fact that those in London would be receiving increases of between 10.6 per cent and 11.3 per cent.

~~[A very small number of staff would receive larger increases as a result of the scale shortening]~~

The contrast would be drawn with the 6.5% offered to the ambulance men and the 7.5% envelope we will have announced for the teachers.

10. ~~[We could, of course,]~~ stage the settlement, paying the flat rate increase from 1 August when it is due and the remainder either in whole or in part some months later. Delaying the whole of the London spine point until December, for example, would reduce the overall cost of the settlement by 0.7 per cent. There are other permutations.

of course

to under 8 percent

11. Whether staged or not, we are most unlikely to get agreement with all three unions involved unless we go a little way beyond the figures discussed above. It might just be possible to deliver the NUCPS and the IPMS. But the FDA, who represent most of the fast stream staff, will want to go at least to the top of the interquartile range, with possibly some further staged payments thereafter. If the negotiations broke down the other two unions could well side with them. They regard this as their last opportunity to do any significant amount of catching up with the private sector. They will claim that we are ignoring the results of the levels survey and acting contrary to the spirit of the long-term pay agreement. They will undoubtedly seek arbitration, which we will have to refuse. There is little prospect of any significant industrial action, but there will be a lot of recrimination and accusations of bad faith and some of our best people will undoubtedly draw their own conclusions. The effects on morale and motivation could be quite substantial.

12. By imposition we would, however, at least avoid the presentational risk of the union talking up the size of the settlement, as they did in the case of the IRSF.

13. There is one further ~~unhelpful~~ *complex* aspect of which you should be aware. Anything we do for Grade 6 pay will ~~impact back on~~ *be reflected in* the pay of Members of Parliament. Under the terms of the resolution they will automatically receive on 1 January both the 4 per cent and

multi

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CONFIDENTIAL

(compens)
the 6.5 per cent, a total of 10 3/4 per cent. ~~(since the two are multiplicative).~~ Effectively they will receive in twelve months increases which the Civil Service will have then given to cover sixteen months. But there is nothing we can do about that unless we were to try to re-open the resolution, which I would not recommend for fear of something worse.

I suggest would be happy to
14. ~~It would be helpful to discuss~~ as soon as I return from ~~the~~ international meetings. *was an.*

N L



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

PRIME MINISTER

19/9/89.

NOT SENT

CIVIL SERVICE PAY SETTLEMENT FOR GRADES 5 TO 7

We have now reached the point in negotiations with the Civil Service unions about Grades 5 to 7 pay, the last of the three Civil Service negotiations with 1 August settlement dates, at which a decision will have to be made. There are 19,000 staff affected, with a pay bill of £450 million.

2. Grades 5 to 7 are a key group of staff identified by colleagues as a priority area. You will recall the conclusions of the MISC 66 discussion some months ago.

3. These are the first set of negotiations for this group under their long-term pay agreement signed in July 1988. As such it is 'informed but not constrained' both by a survey of levels of pay and benefits for comparable jobs in the private sector and by a survey of settlements in the private sector in the twelve months up to last June.

4. The levels survey can (and will) be interpreted in different ways. But on any interpretation it suggests that Civil Service remuneration (including pension entitlements) at these levels has fallen well below comparable private sector rates, particularly in London and particularly when account is taken of the provision of cars and other benefits. The movements survey gives an interquartile range of 6.5 per cent to 8.9 per cent, with a median of 7.5 per cent.



5. Against this background, I believe that the least we can give as an across the board increase is the bottom of the interquartile range of 6.5 per cent. This is more generous than it sounds. These grades received 4 per cent on 1 April as part of the phasing of the new agreement which included a change in settlement date from 1 April. The two increases together have therefore to cover a period of sixteen months. At an annual rate they are equivalent to 8.0 per cent. 6.5 per cent would also be the same as the Institution of Professionals, Managers and Specialists (IPMS) grades received across the board on 1 August (without a levels survey). But it is less than the 7 per cent given in comparable circumstances to the Inland Revenue Staff Federation (IRSF) last week.

6. On top of this, however, it is essential to do something additional in London. The pattern we have followed in previous settlements covering virtually all other groups is to give those in London an additional spine point, worth between £800 and £1300 at these levels. Payments of this kind, which would come on top of the existing London Weighting in Inner London of £1,750, would be more than justified by the differentials in private sector pay revealed by the levels survey.

7. We also want to shorten the Grade 7 scale by taking two points off the bottom. The benefit of this would go almost entirely to fast stream staff whom departments are particularly worried about losing and who would then receive substantially larger increases on promotion to the grade.

8. Selectivity of this kind is precisely the kind of thing the flexible pay agreements are supposed to be about. Unfortunately targeting London is very expensive for these key grades because half of them are based here. The cost of a settlement of 6.5 per



cent plus a spine point for London would be 8.4 per cent, even if we ignored (as I believe we can do for presentational purposes) the cost of scale shortening (a further 0.2 per cent). This would be close to, but below, the top of the interquartile range.

9. A settlement of this size would clearly be very uncomfortable in current circumstances. We would of course seek to present it as a settlement of 6.5 per cent with special payments in London. We would point to the fact that this is a good example of the kind of selectivity we are seeking to encourage in others; and we would point out that this is a crucial group of staff whose private sector analogues have been enjoying substantial and generally unpublicised pay increases over the last few years. But the press would be bound to fasten on the largest figures - the overall cost of the settlement and the fact that those in London would be receiving increases of between 10.6 per cent and 11.3 per cent. The contrast would be drawn with the 6.5 per cent offered to the ambulancemen and the 7.5 per cent envelope we will have announced for the teachers.

10. My inclination is to stage the settlement, paying the flat rate increase from 1 August when it is due and the remainder either in whole or in part some months later. Delaying the whole of the London spine point until December, for example, would reduce the overall cost of the settlement by 0.7 per cent to under 8 per cent. There are of course other permutations.

11. Whether staged or not, we are most unlikely to get agreement with all three unions involved unless we go a little way beyond the figures discussed above. It might just be possible to deliver the NUCPS and the IPMS. But the FDA, who represent most of the fast stream staff will want to go at least to the top of the interquartile range, with possibly some further staged payments thereafter. If the negotiations broke down the other two unions



could well side with them. They regard this as their last opportunity to do any significant amount of catching up with the private sector. They will claim that we are ignoring the results of the levels survey and acting contrary to the spirit of the long-term pay agreement. They will undoubtedly seek arbitration, which we will have to refuse. There is little prospect of any significant industrial action, but there will be a lot of recrimination and accusations of bad faith and some of our best people will undoubtedly draw their own conclusions. The effects on morale and motivation could be quite substantial.

12. By imposition we would, however, at least avoid the presentational risk of the union talking up the size of the settlement, as they did in the case of the IRSF.

13. There is one further complication of which you should be aware. Anything we do for Grade 6 pay will be reflected in the pay of Members of Parliament. Under the terms of the resolution they would automatically receive on 1 January both the 4 per cent and the 6.5 per cent, a total (compounded) of 10 3/4 per cent. But there is nothing we can do about that unless we were to try to re-open the resolution, which I would not recommend for fear of something worse.

14. I would be happy to discuss as soon as I return from Washington.

[N.L.]

19 September 1989

*Thanks. I am
convinced you
to explore ~~the~~ ^{along the lines of}
Ch. pathway ^{providing you}
para 9, ^{clearly} ^{you will}
make clear ^{agrees (time) as}
draft ^{as} ^{meanings}
minute to PPs ^{as far}
is ^{as possible}
in signature folder behind -
but you may, as Mr Kelly
suggests, prefer to defer this if you see
any alterations in the latest approach.*

FROM: C W KELLY (PAY)
Room 120A/3
DATE: 20 September 1989
ext 4400

CHANCELLOR

cc: Chief Secretary
Paymaster General
Sir Peter Middleton
Mr Anson
Dame Anne Mueller
Sir T Burns
Mr Luce
Ms Young
Mrs Chaplin

GRADES 5 TO 7 PAY

I had what in other circumstances would have been a very constructive meeting with the unions yesterday. They seem finally to have got the message about the possibility of a breakdown in the negotiations; Leslie Christie and Bill Brett have clearly made some effort to bring the FDA under control.

2. They are still, of course, asking for too much - a total of around 11 per cent spread over two years. But there are a number of positive signs. In particular:

- i. They have reduced their claim for an across the board increase on 1 August from 9 per cent to 7 per cent, which is what we gave the IRSF.
- ii. They volunteered the idea of delaying the additional London spine point within reason for as long as it takes to make the arithmetic work out.
- iii. They indicated fairly clearly that they accepted that any increase this year would have to be constrained within the interquartile range and (slightly less clearly) that any

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additional cost next year would have to be charged against next year's interquartile range.

iv. They said that they understood the problem of public presentation in current circumstances and that we could rely on them not to go round blowing up the figures to the press. Their members were, they said, more sophisticated than those of the IRSF and would understand what the settlement implied without a lot of hype.

3. I take this last point with a large pinch of salt. But the others represent considerable progress, even if the gap between us is still fairly large. They are looking for a fair amount of flexibilities on top of the basic package, to some of which they attach a fair measure of importance. Others are probably there to give them something to concede in negotiation.

4. In response, I welcomed the extent to which they had moved, while regretting the size of the difference which still remained between us.

5. In the same constructive spirit, we went on to discuss the possibility of a settlement covering two years or, more promisingly, twenty months, which would imply a change of settlement date back to 1 April. I pointed out to them that if they were prepared, as was implied by their proposals, to mortgage a substantial slice of next year's settlement in advance it was a relatively small step to tie up the whole thing over the whole period.

6. Their instinctive reaction is against a two year deal. But one covering twenty months could well have some attraction for them. A shift in settlement date back to 1 April (where the NUCPS and CPSA still are) would serve their strategic aim of bringing all the Civil Service settlements back together again.

7. I do not think that we need worry too much about this. It would be a small price to pay to get a settlement. In my view the fragmentation of Civil Service bargaining procedures has now gone

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too far to be reversed. The change from having two negotiations in April and three in August to three in April and two in August is not really a major one.

8. On the other hand, changing back to April would get us away from the absurdity of trying to negotiate during August with the complications that causes, including those for running cost limits; it would allow us to spread the cost of introducing the London spine point over a longer period; and it could help to obfuscate what is going on to an extent which could only be helpful in terms of public presentation, provided we do not allow it to confuse ourselves about underlying costs.

9. There are obviously many permutations which could be tried. But by way of example it would in principle be possible to devise a package which gave staff 6½ per cent on 1 August 1989, a London spine point on 1 March, a further 5 per cent on 1 June 1990 (a figure chosen because it is 8½ per cent of the median of settlements in the current movements survey) and various minor flexibilities at various points in between at a cost which would fall:

- i. 8.1 per cent in the first twelve months.
- ii. 5.1 per cent in the next eight month period up to the new settlement date, equivalent to an annual rate of 7.75 per cent.
- iii. 1.0 per cent in the twelve months period after 1 April 1991.

This would make a total of 14.2 per cent in all.

10. I cannot be sure that a package of this kind is negotiable. I would expect the unions to stick at 7 per cent for the first payment rather than 6½ per cent; to be looking for at least 8.5 per cent for the first twelve months (which is what the IRSF got) and to have difficulties over a figure of 5 per cent for the second. But it must be worth exploring this and other possible

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combinations with them further; and presentationally I would expect the general approach to be quite attractive to you.

11. I have another meeting with the unions tomorrow afternoon, which was fixed some time ago. If you agree I would like to explore the possibility of a twenty month deal further with them then and subsequently in the hope that that will then make it possible for me to come back to you with another proposition when you return from Washington.

12. If you see any attraction in this idea, it might be sensible to defer minuting the Prime Minister until we are clearer whether it is likely to lead to anything.

CW
C W KELLY



FROM: D I SPARKES
DATE: 21 SEPTEMBER 1989

MR C W KELLY (PAY)

cc PS/Chief Secretary
PS/Paymaster General
Sir P Middleton
Mr Anson
Dame A Mueller
Sir T Burns
Mr Luce
Ms Young
Mrs Chaplin

JP

GRADES 5 TO 7 PAY

The Chancellor was grateful for your minute of 20 September concerning the progress of these pay negotiations. He is content for you to explore a package along the lines set out in paragraph 9 of your minute, provided you make clear that you will have difficulty (which is true) in getting the Chancellor to agree to anything that goes as far as this. Meanwhile, he will defer minuting the Prime Minister.

D.I.

DUNCAN SPARKES

DRAFT MINUTE

29/9/89.

FROM: CHANCELLOR

TO: PRIME MINISTER

CIVIL SERVICE PAY SETTLEMENT FOR GRADES 5 TO 7

We have now reached the point at which decisions will have to be made about the negotiations with the Civil Service unions about Grades 5 to 7 pay, the last of the three Civil Service negotiations with 1 August settlement dates. There are 19,000 staff affected, with a pay bill of £450 million.

2. Grades 5 to 7 are a key group of staff identified by colleagues as a priority area. You will recall the conclusions of the MISC 66 discussion some months ago.

3. This is the first set of negotiations for this group under their long-term pay agreement signed in July 1988. As such it is 'informed but not constrained' both by a survey of levels of pay and benefits for comparable jobs in the private sector (the "levels survey") and by a survey of settlements in the private sector in the twelve months up to last June (the "movements survey").

4. The levels survey can (and will) be interpreted in different ways. But on any interpretation it suggests that Civil Service remuneration (including pension entitlements) at these levels has fallen well below comparable private sector rates, particularly in London and particularly when account is taken of the provision of cars and other benefits. The movements survey gives an

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interquartile range of 6.5 per cent to 8.9 per cent, with a median of 7.5 per cent.

5. Against this background, I believe that the least we can give as an across the board increase is the bottom of the interquartile range of 6.5 per cent. This is more generous than it sounds. These grades received 4 per cent on 1 April as part of the phasing of the new agreement which included a change in settlement date from 1 April. The two increases together have therefore to cover a period of sixteen months. At an annual rate they are equivalent to 8.0 per cent. 6.5 per cent would also be the same as the Institution of Professionals, Managers and Specialists (IPMS) grades received across the board on 1 August (without a levels survey). But it is less than the 7 per cent given in comparable circumstances two weeks ago to the Inland Revenue Staff Federation (IRSF).

6. On top of this, however, it is essential to do something additional in London. The pattern we have followed in previous settlements covering virtually all other groups is to give those in London an additional spine point, worth between £800 and £1,500 at these levels. Payments of this kind, which would come on top of the existing London Weighting in Inner London of £1,750, would be more than justified by the differentials in private sector pay revealed by the levels survey.

7. We also want to shorten the Grade 7 scale by taking two points off the bottom, and to even out some of the incremental stages on the Grade 5 scale. The benefit of the former would go almost entirely to fast stream staff whom departments are particularly worried about losing and who would then receive substantially larger increases on promotion to the grade.

8. Selectivity of this kind is precisely the kind of thing the flexible pay agreements are supposed to be about. Unfortunately targeting London is very expensive for these key grades because half of them are based here. The cost of the settlement of 6.5 per cent plus a spine point for London plus the minor restructuring of the pay spine would be 8.7 per cent, even if we

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ignored (as I believe we can do for presentational purposes) the cost of scale shortening. 8.7 per cent would be close to, but below, the top of the interquartile range.

9. A settlement of this size - even if staged - would clearly be uncomfortable in current circumstances. We would of course seek to present it as a settlement of 6.5 per cent with special payments in London (which is actually what the ambulance men have refused). We would point to the fact that this is a good example of the kind of selectivity we are seeking to encourage in others; and we would point out that this is a crucial group of staff whose private sector analogues have been enjoying substantial and generally unpublicised pay increases over the last few years. But some of the press would nevertheless be bound to fasten on the largest figures - the overall cost of the settlement and the fact that those in London would be receiving increases of up to 12½ per cent.

10. My intention is nevertheless to agree the settlement, but to stage it, paying the flat rate increase from 1 August when it is due and the London spine point from 1 December. This would reduce the cost to 8.0 per cent in the first twelve months. The remainder would be charged against the interquartile range which will constrain next year's negotiations, thus reducing the size of the settlement for which the unions will be able to argue then and giving us another point to make in public presentation.

11. The alternative would be to impose. This is not unthinkable. But the unions would then undoubtedly seek arbitration, which we will have to refuse. There is little prospect of any significant industrial action. But there will be a lot of recrimination and accusations of bad faith and some of our best people in these senior managerial grades would undoubtedly draw their own conclusions. The effects on morale and motivation could be quite substantial, and long-term.

12. There are two additional factors of which you should be aware.

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13. First, we are still talking to the unions about the possibility of turning this into a twenty month deal by the addition of a further payment of 5 per cent on 1 August 1990. I do not yet know whether this will come to anything. But if it did I believe there could be both substantive and presentational advantage for us in it.

14. Second, anything we do for Grade 6 pay will be reflected in the pay of Members of Parliament. Under the terms of the resolution they would automatically receive on 1 January both the 4 per cent from April and the 6.5 per cent, a total (compounded) of 10 3/4 per cent. But there is nothing we can do about that unless we were to try to re-open the resolution, which I would not recommend for fear of something worse. If we concluded a twenty month deal the increase for Members of Parliament on 1 January 1991 would be only 5 per cent.

[15. I would be happy to discuss, if possible on Monday].

[N.L]

October 1989

DRAFT MINUTE

FROM: CHANCELLOR

TO: PRIME MINISTER

29/9/89.

CIVIL SERVICE PAY SETTLEMENT FOR GRADES 5 TO 7

We have now reached the point at which decisions will have to be made over the negotiations with the Civil Service unions about Grades 5 to 7 pay, the last of the three Civil Service negotiations with 1 August settlement dates. There are 19,000 staff affected, with a pay bill of £450 million.

2. Grades 5 to 7 are a key group of staff identified by colleagues as a priority area. You will recall the conclusions of the MISC 66 discussion some months ago.

3. This is the first set of negotiations for this group under their long-term pay agreement signed in July 1988. As such it is 'informed but not constrained' both by a survey of levels of pay and benefits for comparable jobs in the private sector (the "levels survey") and by a survey of settlements in the private sector in the twelve months up to last June (the "movements survey").

4. The levels survey can (and will) be interpreted in different ways. But on any interpretation it suggests that Civil Service remuneration (including pension entitlements) at these levels has fallen well below comparable private sector rates, particularly in London and particularly when account is taken of the provision of cars and other benefits. The movements survey gives an interquartile range of 6.5 per cent to 8.9 per cent, with a median of 7.5 per cent.

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5. Against this background, I believe that the least we can give as an across the board increase is the bottom of the interquartile range of 6.5 per cent. This is more generous than it sounds. These grades received 4 per cent on 1 April as part of the phasing of the new agreement which included a change in settlement date from 1 April. The two increases together have therefore to cover a period of sixteen months. At an annual rate they are equivalent to 8.0 per cent. 6.5 per cent would also be the same as the Institution of Professionals, Managers and Specialists (IPMS) grades received across the board on 1 August (without a levels survey). But it is less than the 7 per cent given in comparable circumstances two weeks ago to the Inland Revenue Staff Federation (IRSF).

6. On top of this it is essential to do something additional in London. The pattern we have followed in previous settlements covering virtually all other groups is to give those in London an additional spine point, worth between £800 and £1,500 at these levels. Payments of this kind, which would come on top of the existing London Weighting in Inner London of £1,750, would be more than justified by the differentials in private sector pay revealed by the levels survey.

7. We also want to shorten the Grade 7 scale by taking two points off the bottom. The benefit of this would go almost entirely to fast stream staff whom departments are particularly worried about losing and who would then receive substantially larger increases on promotion to the grade.

8. In addition, there is a case for some slight restructuring of the pay spines which would give most Grade 5s, and a few Grade 6s, up to 1½ per cent more than the basic 6.5 per cent increases.

9. If we were prepared to put all these elements into a settlement it seems likely that we would achieve agreement with all three unions, though the FDA will be more difficult to persuade than the other two.

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10. Selectivity of this kind is precisely the kind of thing the flexible pay agreements are supposed to be about. Unfortunately targeting London is very expensive for these key grades because half of them are based here. The total cost of a settlement made up of 6.5 per cent plus a spine point for London plus the scale restructuring would be 8.7 per cent in a full year, even if we ignored (as I believe we can do for presentational purposes) the cost of scale shortening. This would be close to, but below, the top of the interquartile range. Delaying the London payment, as I think we can, to 1 December or 1 January would reduce the cost in the first twelve months to 8.0 per cent or 7.9 per cent. The balance between the first year costs, and full year costs would be charged against the interquartile range next year which will govern the 1990 negotiations. X

11. A settlement of this size - even if staged - would clearly be very uncomfortable in current circumstances. We would of course seek to present it as a settlement of 6.5 per cent with special payments in London (which is what the ambulance men have refused). We would point to the fact that this is a good example of the kind of selectivity we are seeking to encourage in others; we would draw attention to the staging and the fact that the additional costs in the second twelve months would reduce the scope for negotiations about that year's settlement and we would point out that this is a crucial group of staff whose private sector analogues have been enjoying substantial and generally unpublicised pay increases over the last few years. But the press would be bound to fasten on the largest figures - the overall cost of the settlement and the fact that those in London would be receiving increases of up to 12½ per cent. Contrast would be drawn with the 6.5 per cent plus special payments in London offered to the ambulance men and the 7.5 per cent envelope we have announced for the teachers (though a far smaller proportion of these are, of course in London). Y

12. Against this background I do not think that we can go as far as would be necessary to reach agreement. My inclination is therefore to make an offer including all the elements other than

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the restructuring, which would reduce the total cost to 8.4 per cent in a full year, and to stage it so as to keep the cost in the first twelve months to 8 per cent ~~or less~~. 12

7.7
13. We will not reach agreement at this level, even though the addition required to secure agreement would be small. The unions will claim that we are ignoring the results of the levels survey and acting contrary to the spirit of the long-term pay agreement. They will undoubtedly seek arbitration, which we will have to refuse. There is little prospect of any significant industrial action, but there will be a lot of recrimination and accusations of bad faith and some of our best people in these senior management grades will undoubtedly draw their own conclusions. The effect on morale and motivation could be quite substantial.

14. By imposition we would, however, at least avoid the presentational risk of the unions talking up the size of the settlement.

15. There is one further complication of which you should be aware. Anything we do for Grade 6 pay will be reflected in the pay of Members of Parliament. Under the terms of the resolution they would automatically receive on 1 January both the 4 per cent and the 6.5 per cent, a total (compounded) of 10 3/4 per cent. But there is nothing we can do about that unless we were to try to re-open the resolution, which I would not recommend for fear of something worse.

16. I would be happy to discuss, if possible on Monday.

[N.L]

October 1989

5.29.9

PERSONAL AND CONFIDENTIAL

*agreement
+ not imposition.*

FROM: C W KELLY (PAY)
Room 120A/3
DATE: 29 September 1989
ext 4400

CHANCELLOR

cc: Chief Secretary
Paymaster General
Sir Peter Middleton
Mr Anson
Dame Anne Mueller
Sir T Burns
Mr Luce
Ms Young
Mrs Chaplin

*Mk Thanks. On balance,
I am relaxed & for this
version 2 - this
per amended notes @
X, Y & Z & compare
with cover note.*

GRADES 5 TO 7 PAY

You agreed that while you were in Washington I should explore the possibility of a 20 month deal with the 5 to 7 unions.

2. I have now done so. The unions' formal position at present is that they do not want it; and I do not want to press it on them. But I do not rule out the possibility of their changing their minds.

3. In the meantime we have narrowed the differences between us in relation to a 12 month deal. I am in consequence now able to tell you rather more confidently what I think it would take to get agreement on such a deal.

4. You said that you would be prepared to impose:

- i. 6½ per cent across the board from 1 August.
- ii. A spine point for London from 1 December.
- iii. Two points off the bottom of the Grade 7 scale, also from 1 August.

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The cost of this package would be 7.7 per cent in the first 12 months (not 7.9 per cent as I told you earlier) with an additional 0.7 per cent in the following year if the cost of the Grade 7 scale shortening is ignored as you have suggested.

5. I am certain that we could not get agreement at this level. But the unions have indicated that they would (probably) accept an offer which included these three elements plus an additional 0.3 per cent used to even out the pay spine slightly at the top. The incremental steps are currently smaller there in percentage terms than those lower down the spine. The effect of this would be to give most Grade 5s and some Grade 6s (tax inspectors, lawyers in London) basic increases of 8 per cent rather than 6½ per cent. The cost is relatively small, because there are relatively small numbers affected. There would be no effect on MPs' pay.

6. The case for this proposal is basically threefold:

i. It would be a nod in the direction of one of the features which comes most clearly out of the levels survey. It is at Grade 5 level, particularly in London, that Civil Service pay rates are most out of line with private sector rates.

ii. It would disproportionately benefit important groups with retention problems.

iii. It would give the FDA something to which to point in selling the deal to their members as helping them particularly.

7. The unions are also asking that we should agree for pension purposes to treat the London spine point as if it were being paid from 1 August. We are bound to refuse, and they know it.

8. The total cost of a settlement including the scale straightening would be 8.0 per cent in the first year, with a

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carry-over of 0.7 per cent into the second year which would be charged against that year's interquartile range.

9. I realise that a package including this additional element is further than you had wanted to go, and that you also saw some attraction in being able to impose.

10. But:

i. This is a priority group for all departments, as colleagues at MISC 66 recognised.

ii. The additional 0.3 per cent would be justified by the evidence.

iii. While the consequences of not reaching agreement would not be disastrous, I think that they would be more serious on this occasion than they would normally be because it is the first settlement under the new agreement. They could also be fairly long-term.

11. It is probably inevitable that some of the papers would focus on the size of the largest increases (up to 12 per cent for those staff in London benefiting from the scale straightening, plus a handful of fast stream staff receiving larger increases because of the abolition of the bottom two scale points). But there are also some genuine plus points presentationally:

i. Around 40 per cent of the staff concerned are only getting 6½ per cent, ie what has been refused by ambulance men (who have also been offered special payments in London).

ii. While a fair number of those affected are getting more than this, that is the way the flexible pay agreements are supposed to work.

iii. Most of the additional increases are in respect of London, where there is an acknowledged problem.

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iv. We would still be within the interquartile range, even if the full year cost is taken into account. 8.0 per cent would be well within it.

v. An agreed settlement, though higher than we would wish, might actually be better presentationally than an offer which is only a little lower but which is refused.

12. Against this is your point that an imposed settlement would have the advantage of not being talked up by the unions - though I do not think that any of them would be waiting to trumpet this as a very good settlement anyway; and, for what is it worth, all of them have said that they would be prepared to play it down to the press.

13. I have not, of course, given the unions any reason to think that you would be prepared to agree to a package of this kind. But I do commend it to you very strongly.

14. The unions are not finally committed to it either, though they have given some pretty strong signals. The FDA is still the most uncertain of the three. I think that they are likely to come in if the others do. But a major problem for them will be the attitude of the AIT, who have had substantial expectations from this settlement which are not going to be met - a point of considerable concern to the Inland Revenue who are still pressing us (unsuccessfully) to put something more in for their inspectorate.

15. One possibility is that, having reflected, the unions will propose re-opening the 20 month idea on the basis of adding a further 5 per cent on 1 August next year to the package already described. If so, I would like to be able to accept that. While I would not want to press a 20 month deal on them against their judgement, I do think that it has some genuine advantages for us, both substantive and presentational.

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16. The unions have all got national executives or other relevant meetings next Tuesday. It would be helpful, if at all possible, to have at least an initial steer by Monday night about whether you would still prefer to impose a deal or - as I hope - would be prepared to give me authority either to concede the additional 0.3 per cent for an agreed 12 month deal or to do that and add 5 per cent on 1 August 1990 for a 20 month deal.

17. I imagine you will still want to consult the Prime Minister. In view of the shortage of time I attach alternative drafts for that purpose. The first assumes that you are prepared to agree the additions required for a negotiated settlement. The second assumes imposition.

18. I have discussed the substance of this submission with Sir Peter Middleton who, though he has not seen all the details and accepts that there could be some presentational difficulties, endorses the recommendation.

CWK

C W KELLY

encs



2/10/89

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

CC: PS/Chief Secretary
PS/Paymaster General
Sir P Middleton
Sir T Burns
Mr Anson
Dame A Mueller
Mr C W Kelly
Mr Luce
Ms Young
Mrs Chaplin

pmp

PRIME MINISTER

CIVIL SERVICE PAY SETTLEMENT FOR GRADES 5 TO 7

We have now reached the point at which decisions will have to be made over the negotiations with the Civil Service unions about Grades 5 to 7 pay, the last of the three Civil Service negotiations with 1 August settlement dates. There are 19,000 staff affected, with a pay bill of £450 million.

Grades 5 to 7 are a key group of staff identified by colleagues as a priority area. You will recall the conclusions of the MISC 66 discussion some months ago.

This is the first set of negotiations for this group under their long-term pay agreement signed in July 1988. As such it is 'informed but not constrained' both by a survey of levels of pay and benefits for comparable jobs in the private sector (the "levels survey") and by a survey of settlements in the private sector in the twelve months up to last June (the "movements survey").

The levels survey can (and will) be interpreted in different ways. But on any interpretation it suggests that Civil Service remuneration (including pension entitlements) at these levels has fallen well below comparable private sector rates, particularly in London and particularly when account is taken of the provision of cars and other benefits. The movements survey gives an



interquartile range of 6.5 per cent to 8.9 per cent, with a median of 7.5 per cent.

Against this background, I believe that the least we can give as an across the board increase is the bottom of the interquartile range of 6.5 per cent. This is more generous than it sounds. These grades received 4 per cent on 1 April as part of the phasing of the new agreement which included a change in settlement date from 1 April. The two increases together have therefore to cover a period of sixteen months. At an annual rate they are equivalent to 8.0 per cent. 6.5 per cent would also be the same as the Institution of Professionals, Managers and Specialists (IPMS) grades received across the board on 1 August (without a levels survey). But it is less than the 7 per cent given in comparable circumstances two weeks ago to the Inland Revenue Staff Federation (IRSF).

On top of this it is essential to do something additional in London. The pattern we have followed in previous settlements covering virtually all other groups is to give those in London an additional spine point, worth between £800 and £1,500 at these levels. Payments of this kind, which would come on top of the existing London Weighting in Inner London of £1,750, would be more than justified by the differentials in private sector pay revealed by the levels survey.

We also want to shorten the Grade 7 scale by taking two points off the bottom. The benefit of this would go almost entirely to fast stream staff whom departments are particularly worried about losing and who would then receive substantially larger increases on promotion to the grade.



In addition, there is a case for some slight restructuring of the pay spines which would give most Grade 5s, and a few Grade 6s, up to 1½ per cent more than the basic 6.5 per cent increases.

If we were prepared to put all these elements into a settlement it seems likely that we would achieve agreement with all three unions, though the FDA will be more difficult to persuade than the other two.

Selectivity of this kind is precisely the kind of thing the flexible pay agreements are supposed to be about. Unfortunately targeting London is very expensive for these key grades because half of them are based here. The total cost of a settlement made up of 6.5 per cent plus a spine point for London plus the scale restructuring would be 8.7 per cent in a full year, even if we ignored (as I believe we can do for presentational purposes) the cost of scale shortening. This would be close to, but below, the top of the interquartile range. Delaying the London payment, as I think we can, to 1 December or 1 January would reduce the cost in the first twelve months to 8.0 per cent or 7.9 per cent. The balance between the first year costs, and full year costs would be charged against the interquartile range next year which will govern the 1990 negotiations.

A settlement of this size - even if staged - would clearly be very uncomfortable in current circumstances. We would of course seek to present it as a settlement of 6.5 per cent with special payments in London (which is what the ambulance men have refused). We would point to the fact that this is a good example of the kind of selectivity we are seeking to encourage in others; we would draw attention to the staging and the fact that the additional costs in the second twelve months would reduce the scope for negotiations about that year's settlement and we would point out that this is a crucial group of staff whose private sector



analogues have been enjoying substantial and generally unpublicised pay increases over the last few years. But the press would be bound to fasten on the largest figures - the overall cost of the settlement and the fact that those in London would be receiving increases of up to 12½ per cent. Contrast would be drawn with the 6.5 per cent plus special payments in London offered to the ambulance men and the 7.5 per cent envelope we have announced for the teachers (though a far smaller proportion of these are, of course in London).

Against this background I do not think that we can go as far as would be necessary to reach agreement. My inclination is therefore to make an offer including all the elements other than the restructuring, which would reduce the total cost to 8.4 per cent in a full year, and to stage it so as to keep the cost in the first twelve months to 7.7 per cent.

We will not reach agreement at this level, even though the addition required to secure agreement would be small. The unions will claim that we are ignoring the results of the levels survey and acting contrary to the spirit of the long-term pay agreement. They will undoubtedly seek arbitration, which we will have to refuse. There is little prospect of any significant industrial action, but there will be a lot of recrimination and accusations of bad faith and some of our best people in these senior management grades will undoubtedly draw their own conclusions. The effect on morale and motivation could be quite substantial.

By imposition we would, however, at least avoid the presentational risk of the unions talking up the size of the settlement.

There is one further complication of which you should be aware. Anything we do for Grade 6 pay will be reflected in the pay of Members of Parliament. Under the terms of the resolution they



would automatically receive on 1 January both the 4 per cent and the 6.5 per cent, a total (compounded) of 10 3/4 per cent. But there is nothing we can do about that unless we were to try to re-open the resolution, which I would not recommend for fear of something worse.

If you wish to discuss this, I would be happy to do so, if possible today or tomorrow.

N.L.

[N.L]

2 October 1989

*
 cw/ I gather that PM's initial reaction to Grades 5-7 was that implications for MPs were awful. Paul Gray asked for a background note before your bilateral tonight. OK if I send this?

FROM: C W KELLY (PAY)
 Room 120A/3
 DATE: 3 October 1989
 ext 4400

CHANCELLOR

OK - @15

cc: Paymaster General
 Dame Anne Mueller
 Ms Young

GRADES 5 TO 7 AND MPs PAY

You asked for a short note on MPs pay to send to the Prime Minister's office before your meeting with the her this afternoon.

2. I attach a draft.

3. There is one possible compensating factor which you may wish to have in mind, though it will not help next January. If we were to revert to a 20 month deal, all MPs would get on 1 January 1991 would be the smaller payment on 1 August 1990, ie 5 per cent. This option is not, of course, open to us if we impose a settlement; and it may not be possible to introduce it at this stage even into a negotiated one. But I would be happy to try, if you thought it would help. The unions would probably prefer that to no agreement at all.

CWK

C W KELLY

encs

DRAFT LETTER

FROM: PS/CHANCELLOR

TO : PS/PRIME MINISTER

GRADES 5 TO 7 AND MPs PAY

You asked for further explanation of the link between MPs pay and that of grade 6 to which the Chancellor referred in his minute of yesterday.

2. MPs' salaries are currently governed by a Parliamentary resolution of 21 July 1987. This increases them on 1 January each year to the equivalent of 89 per cent of the then normal maximum of the National Civil Service grade 6 scale, i.e. excluding both performance pay and any special payments for London.

3. The linkage was first established by a resolution of 26 July 1983, following a 1983 TSRB report. It is not one which the Government supported at the time. The history, and the levels of pay which have resulted, are set out in the attached note. The increase in MPs salaries from 1 January this year was 6.9 per cent, from £22,548 to £24,107.

4. The difficulty next January arises from the long-term pay agreement for grades 5 to 7 last July. As part of that agreement the settlement date for these grades was changed from 1 April to 1 August. To phase in the move to a new settlement date they were given a transitional payment of 4 per cent on 1 April this year following the pattern set by the two previous long-term agreements. The operation of the resolution will mean that MPs will receive both this transitional payment and the 6.5 per cent proposed for 1 August. For the Civil Service grades these

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payments will cover a period of 16 months (from 1 April 1989 to 1 August 1990), MPs will get the full amount even though their own settlement date has not altered.

5. This is clearly extremely unsatisfactory. But it could only be avoided either by reducing the basic increase proposed for grades 5 to 7 below 6½ per cent, which is not really feasible, or by trying to amend the resolution. The danger of trying to do that is that we could end up with something worse, as has happened on previous occasions.

ANNEX: MPs PAY SINCE 1983

The present arrangements stem from the TSRB review of Members' pay in 1983 (Report No 20: Cmnd 8881). The TSRB then recommended that the salary for Members' should be £19,000 per annum, an increase of over 30 per cent. The Government considered that this increase was too great and proposed to the House of Commons that Members' pay should instead, be increased by 4 per cent. In the event, the House voted for an amendment to increase Members' pay by five equal instalments of £798, culminating in a salary of £18,500 on 1 January 1987. The pay levels established by the Resolution of the House of 26 July 1983 were as follows:

13 June 1983	:	£15,308
1 January 1984	:	£16,106
1 January 1985	:	£16,904
1 January 1986	:	£17,702
1 January 1987	:	£18,500

2. The Resolution also prescribed that from 1 January 1988 the Parliamentary salary shall be linked to that "paid to a civil servant at the point in the grade of national salaries which is receiving £18,500 on 13 June 1983 ... provided that this paragraph would not have effect unless approved by a Resolution of the House during the first three months of each Parliament". This was not a linkage that the Government supported. During the 1983 debate, the Government proposed a linkage that would have produced a much lower increase from 1 January 1988 (4.25 per cent ie. the same as the Civil Service in 1987). However, the House of Commons decided otherwise and the Resolution was reaffirmed by the House on 21 July 1987 linking MPs pay to 89 per cent of the rate which on 1 January represents the maximum point on the main national pay scale for Grade 6 officers in the Home Civil Service (disregarding any discretionary pay points on that scale). This involved a 21.9 per cent increase in salary, raising MPs' pay to £22,548 from 1 January 1988.

3. In January 1989 MPs' salaries increased from £22,548 to £24,107 (an increase of £1559 or 6.9 per cent) in accordance with the 21 July 1987 Resolution.



cc PS/Paymaster General
Dame A Mueller
Mr C W Kelly
Ms Young

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

3 October 1989

P R C Gray Esq
Private Secretary to
Prime Minister
10 Downing Street
LONDON
SW1

prc

Dear Paul,

GRADES 5 TO 7 AND MPs PAY

You asked for further explanation of the link between MPs pay and that of Grade 6 to which the Chancellor referred in his minute of yesterday.

MPs' salaries are currently governed by a Parliamentary resolution of 21 July 1987. This increases them on 1 January each year to the equivalent of 89 per cent of the then normal maximum of the National Civil Service Grade 6 scale, ie excluding both performance pay and any special payments for London.

The linkage was first established by a resolution of 26 July 1983, following a 1983 TSRB Report. It is not one which the Government supported at the time. The history, and the levels of pay which have resulted, are set out in the attached note. The increase in MPs' salaries from 1 January this year was 6.9 per cent, from £22,548 to £24,107.

The difficulty next January arises from the long-term pay agreement for Grades 5 to 7 last July. As part of that agreement the settlement date for these grades was changed from 1 April to 1 August. To phase in the move to a new settlement date they were given a transitional payment of 4 per cent on 1 April this year following the pattern set by the two previous long-term agreements. The operation of the resolution will mean that MPs will receive both this transitional payment and the 6.5 per cent



proposed for 1 August. For the Civil Service grades these payments will cover a period of 16 months (from 1 April 1989 to 1 August 1990), MPs will get the full amount even though their own settlement date has not altered.

This is clearly extremely unsatisfactory. But it could only be avoided either by reducing the basic increase proposed for Grades 5 to 7 below 6½ per cent, which is not really feasible, or by trying to amend the resolution. The danger of trying to do that is that we could end up with something worse, as has happened on previous occasions.

*Yours,
Duncan.*

DUNCAN SPARKES
Assistant Private Secretary

ANNEX: MPs PAY SINCE 1983

The present arrangements stem from the TSRB review of Members' pay in 1983 (Report No 20: Cmnd 8881). The TSRB then recommended that the salary for Members' should be £19,000 per annum, an increase of over 30 per cent. The Government considered that this increase was too great and proposed to the House of Commons that Members' pay should instead, be increased by 4 per cent. In the event, the House voted for an amendment to increase Members' pay by five equal instalments of £798, culminating in a salary of £18,500 on 1 January 1987. The pay levels established by the Resolution of the House of 26 July 1983 were as follows:

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3. In January 1989 MPs' salaries increased from £22,548 to £24,107 (an increase of £1559 or 6.9 per cent) in accordance with the 21 July 1987 Resolution.

CH/EXCHEQUER	
REC.	4 OCT 1989
ACTION	Mr C. Kelly
COPIES TO	PMG, Sir P. Middleton
	Dr. A. Mueller
	Ms Young



pmg

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

3 October 1989

Dear Sir,

CIVIL SERVICE PAY SETTLEMENT FOR GRADES 5-7

The Prime Minister and Chancellor discussed this afternoon his minute of 2 October and the further material on MPs' pay in Duncan Sparkes' letter to me of 3 October.

The Chancellor said that he had carefully considered the handling of the package for Grades 5-7. The choice lay between a package which there was a reasonable chance could be agreed with the unions, costing 8.7% in a full year and 7.9% in the first 12 months; and imposing the alternative package without re-structuring for Grade 5s and Grade 6s, which would cost 8.4% in a full year and 7.7% in the first 12 months. The balance between these approaches was a fine one. In cost terms the difference was very small, but in presentational terms there could be considerable advantage in the imposition approach; this would discourage the unions from publicising the maximum increases available to some staff. On balance he recommended the second approach involving imposition of the lesser package.

Following a brief discussion the Prime Minister said that she could see the case for imposition if this would achieve a substantial amount. But it was not clear that would be the case in this instance. She did not therefore consider it was worth forfeiting the goodwill of the staff, and felt it would be better to seek to reach agreement on the basis of the 8.7%/7.9% package including re-structuring. The Chancellor said he was content to adopt this approach and would instruct the negotiators accordingly. The Prime Minister commented that it would be important to ensure that good briefing material was available for the date of announcement.

The Prime Minister and Chancellor also discussed the implications of the Grade 6 settlement for the pay of MPs. Concern was expressed about difficulty of presenting an increase for MPs from 1 January 1990 of 10.75%. It was agreed however that any attempt to move away from the existing resolution linking MPs to Grade 6 pay would be likely to produce a worse result. The 10.75% increase resulting from the formula would therefore have to be accepted. In presenting this outcome it would however be important to emphasise that during the course of 1989 MPs had not

enjoyed the benefit of the 4% increase that Grade 6 civil servants had received with effect from 1 April 1989.

I am copying this letter to Trevor Woolley (Cabinet Office).

*Yan,
Paul*

(PAUL GRAY)

John Gieve, Esq.,
HM Treasury.

MANAGEMENT IN CONFIDENCE

FROM: C W KELLY (PAY)
Room 120A/3
DATE: 4 October 1989
ext 4400

CHANCELLOR

cc: Chief Secretary
Paymaster General
Sir Peter Middleton o/r
Mr Anson
Dame Anne Mueller
Sir T Burns
Mr Phillips
Mr Luce
Mr Chivers
Mr O'Donnell
Ms Young
Mr Graham
Mr Bell
Mr Ellis
Mr Flitton
Mrs Chaplin

*OK. Please for
M...
all yr help
Pat... work*

*Ch/ Timing: context with
Friday afternoon announcement?*

*Comments on draft message,
press notice and Q&A brief?*

015

GRADES 5 TO 7 PAY

The IPMS and the NUCPS have indicated that they are now ready to recommend the deal to their members. We hope to hear this afternoon from the FDA that they too are prepared to recommend it. In the light of your discussion with the Prime Minister yesterday, we are to meet the unions at 6.00 pm this evening to conclude the deal, on the basis of a 7.9 per cent first year cost.

Presentation

2. We clearly need to do all we can to prevent unhelpful presentation. IDT's advice is that this points to an announcement on Friday afternoon, which would give us 24 hours to warn the departments and gear them up with a message to staff. We could at a pinch hold it over until next Monday. But I would not recommend it. We would be likely to find that the story leaked, that we were consequently put on the defensive, and that we lost what chance we have of influencing what the press say. There is a risk

MANAGEMENT IN CONFIDENCE

of that even in a delay until Friday. But I think it is one worth taking.

3. I attach for your approval drafts of both the message to staff and the press notice, together with a Question and Answer brief for IDT's use.

CWK

C W KELLY

encs

DRAFT MESSAGE TO STAFF

1989 PAY REVIEW : GRADES 5 TO 7

The Treasury has reached provisional agreement with the FDA, the IPMS and the NUCPS about the 1 August pay settlement for the grades covered by the Grades 5 to 7 pay agreement.

2. The provisional agreement has the following components:

i. A revalorisation of the pay spine by 6.5 per cent with effect from 1 August 1989.

ii. An additional spine point for all the staff in London (the London Weighting areas) from 1 January 1990.

iii. The removal of spine points 4 and 5 from the bottom of the Grade 7 scale, and from the scales of Annex A grades which are identical, from 1 August (with staff affected taking 1 August as their new incremental date). Further discussions will take place as soon as possible about the implications for starting pay on promotion to Grade 7.

iv. Some adjustment of the pay spine from spine point 16.

3. The new pay spine and pay scales are attached.

not attached.

4. The total cost of the settlement will be 7.9 per cent in the first year and 8.7 per cent in a full year.

5. All three unions are recommending the agreement to their members.

GRADE 5

	LONDON (*)		NATIONAL	
	SPINE POINT	£	SPINE POINT	£
UNIFIED	16	31276	15	30001
GRADE 5	17	32605	16	31276
	18	33991	17	32605
	19	35436	18	33991
pp	20	36818	pp 19	35436
pp	21	38254	pp 20	36818
pp	22	39746	pp 21	38254
pp	23	41296	pp 22	39746
TAX	16	31276	15	30001
INSPECTORS	17	32605	16	31276
	18	33991	17	32605
	19	35436	18	33991
	20	36818	19	35436
pp	21	38254	pp 20	36818
pp	22	39746	pp 21	38254
pp	23	41296	pp 22	39746
LAWYERS	18	33991	15	30001
	19	35436	16	31276
	20	36818	17	32605
	21	38254	18	33991
pp	22	39746	pp 19	35436
pp	23	41296	pp 20	36818
pp	24	42907	pp 21	38254
pp	25	44580	pp 22	39746
**	26	46319		

* London is defined by the London Weighting area. The rates shown exclude London Weighting payments.

** This point is only available to lawyers with two or more personal pay points.

GRADE 6

	LONDON (*)		NATIONAL	
	SPINE POINT	£	SPINE POINT	£
UNIFIED	10	24075	9	23039
GRADE 6	11	25160	10	24075
	12	26291	11	25160
	14	28710	13	27474
	16	31276	15	30001
	pp 17	32605	pp 16	31276
	pp 18	33991	pp 17	32605
	pp 19	35436	pp 18	33991
	pp 20	36818	pp 19	35436
TAX	10	24075	9	23039
INSPECTORS	11	25160	10	24075
	12	26291	11	25160
	14	28710	13	27474
	16	31276	15	30001
	17	32605	16	31276
	pp 18	33991	pp 17	32605
	pp 19	35436	pp 18	33991
	pp 20	36818	pp 19	35436
LAWYERS	13	27474	9	23039
	14	28710	10	24075
	15	30001	11	25160
	17	32605	13	27474
	18	33991	15	30001
	pp 19	35436	pp 16	31276
	pp 20	36818	pp 17	32605
	pp 21	38254	pp 18	33991
	pp 22	39746	pp 19	35436

* London is defined by the London Weighting area. The rates shown exclude London Weighting payments.

GRADE 7

	LONDON (*)		NATIONAL	
	SPINE POINT	£	SPINE POINT	£
UNIFIED	7	21098	6	20189
GRADE 7	8	22047	7	21098
	9	23039	8	22047
	10	24075	9	23039
	11	25160	10	24075
pp	12	26291	pp 11	25160
pp	13	27474	pp 12	26291
pp	14	28710	pp 13	27474
pp	15	30001	pp 14	28710
TAX	9	23039	6	20189
INSPECTORS	10	24075	7	21098
	11	25160	8	22047
	12	26291	9	23039
pp	13.5	28093	10	24075
pp	14.5	29356	11	25160
pp	15.5	30639	pp 12	26291
			pp 13	27474
			pp 14	28710
LAWYERS	9	23039	6	20189
	10	24075	7	21098
	11	25160	8	22047
	12	26291	9	23039
	13	27474	10	24075
pp	14	28710	pp 11	25160
pp	15	30001	pp 12	26291
pp	16	31276	pp 13	27474
pp	17	32605	pp 14	28710

* London is defined by the London Weighting area. The rates shown exclude London Weighting payments.

DRAFT PRESS NOTICE**CIVIL SERVICE GRADES 5 TO 7 : 1989 PAY SETTLEMENT**

The Treasury and the three unions representing Civil Service Grades 5 to 7 have today reached provisional agreement about their 1 August 1989 pay settlement.

2. The settlement provides for a basic increase of 6.5 per cent from 1 August.

3. In addition, from 1 January 1990 staff in London will receive an extra spine point.

4. The settlement as a whole will cost 7.9 per cent in the first twelve months.

5. All three unions are recommending the agreement to their members.

Notes for editors

6. The settlement covers around 22,000 staff in senior management and professional posts. The three unions involved are the Association of First Division Civil Servants, the Institution of Professionals, Managers and Specialists and the National Union of Civil and Public Servants.

7. This is the first settlement under the flexible long-term pay agreements signed in July 1988. It has been informed both by a survey of outside levels of pay and benefits conducted by consultants on behalf of the Office of Manpower Economics and by a companion survey of pay settlements in the private sector over the twelve months leading up to the negotiations.

8. The cost of the settlement will be met from within running costs limits.

M A N A G E M E N T - I N - C O N F I D E N C E

DRAFT

Q AND A BRIEF

Line to take

1. Basically a 6.5 per cent settlement with additional payment for staff in London.
2. Responsible settlement for key group of middle and senior managers with low overall increase and special payments for London contained within overall cost well below other recent settlements.
3. Last of this August's settlements for civil service. Other recent civil service pay deals similarly responsible:
 - (i) Industrials (July): 6.7 per cent
 - (ii) IPMS (August): 6.5 per cent basic (7.3 per cent full year)
 - (iii) IRSF (August): 7 per cent basic.

Defensive points

1. Higher full year cost

True. Effect of staging London payment. But additional 0.8 per cent cost charged against inter-quartile range which will govern 1990 pay negotiations. Reduces scope for negotiations next year.

MANAGEMENT - IN - CONFIDENCE

Defensive points

2. Ambulancemen

Agreement with unions on 6.5 per cent plus special payments in London - i.e. what ambulancemen have refused.

3. Comparison with teachers (IAC Remit of 7.6 per cent)

Far smaller proportion of teachers in London. IAC remit consistent with similar sort of settlement. But for IAC to make recommendations.

4. Very large increases for some

Basic increase only 6½ per cent. Additional payments targeted on tight labour market in London. Targeting of this kind is what flexible pay is about.

5. Government lost control over own paybill

Basic settlement only 6.5 per cent. Overall cost of 7.9 per cent in first 12 months well below other recent settlements. Remainder targeted at London where special problems. This sort of selectivity is what flexible pay is about.

6. Won't some staff get increases in double figures

Yes (then as 5 above.)

7. Implications for higher grades

Pay of Senior Open Structure not settled until next April. For TSRB to make recommendations. No reason why this settlement should create problems. Grade 3 received London allowance last April.

MANAGEMENT - IN - CONFIDENCE

8. Does settlement reflect levels survey?

Levels survey was taken into account in negotiations. So was movements survey.

9. Overall cost of IRSF deal

8.5. But 7.5 per cent only got 7 per cent. Rest targeted as selective increases where real recruitment and retention problems. In return secured significant concessions on productivity.



FROM: D I SPARKES
DATE: 5 OCTOBER 1989

MR C W KELLY (PAY)

cc PS/Chief Secretary
PS/Paymaster General
Sir P Middleton
Sir T Burns
Mr Anson
Dame A Mueller
Mr Phillips
Mr Luce
Mr Chivers
Mr O'Donnell
Ms Young
Mr Graham
Mr Bell
Mr Ellis
Mr Flitton
Mrs Chaplin

GRADES 5 TO 7 PAY

The Chancellor was grateful for your minute of 4 October attaching a draft message to staff, Press Notice and Q and A briefing. He had no comments on these and is content for an announcement to be made on Friday afternoon. He is most grateful to you and your team for all your hard and patient work in concluding these negotiations.

A handwritten signature in dark ink, appearing to read 'D.I.S.' with a flourish at the end.

DUNCAN SPARKES

PERSONAL AND CONFIDENTIAL

FROM: C W KELLY (PAY)
Room 120A/3
DATE: 5 October 1989
ext 4400

CHANCELLOR

cc: Paymaster General
Sir Peter Middleton o/r
Mr Anson
Dame Anne Mueller
Sir T Burns
Mr O'Donnell
Ms Young
Mr Flitton
Mrs Chaplin

*Ch/Content to postpone
to Monday? Much better
that unions make case to
members via own bulletins
rather than feel need to talk to Press.*

GRADES 5 TO 7 PAY

I am pleased to say that we reached agreement last night with all three unions on the agreed basis of 7.9 per cent in the first year and 8.7 per cent in a full year.

2. I understand that the discussion in the FDA executive committee was quite difficult with threats of resignations from some of the Crown Prosecution Service members. But Liz Symons got her majority nevertheless.

3. There is one hangover. The AIT have warned that notwithstanding the settlement they intend to put in a further claim for special treatment for the tax inspectorate under Clause 15, as they are at liberty to do. They have also suggested that it would be possible to make such a claim self-financing in various ways involving a reduction in numbers of posts. We cannot stop them doing this; and we have agreed to look at the claim on its merits when it comes.

4. We also talked last night to the unions about timing. Their strong preference is for an announcement on Monday, rather than Friday. They accept that there is a risk of a leak before then,

PERSONAL AND CONFIDENTIAL

but they say that the delay would give them the chance of getting their own bulletins into the hands of their members on the same day as they read about it in the press. If that were the case they say they would not need to be concerned about the way in which the press presented it, and would therefore find it easier to present it in as low key way as possible in any contact they did have with the press.

5. I have some sympathy with this. On reflection I now think it better to delay until Monday, despite the additional risk that will create, but to be ready (as we are) to issue a press notice tomorrow if it should leak before then.

6. I should be grateful to know if you are content with this as soon as possible.

CWK

C W KELLY

MANAGEMENT IN CONFIDENCE



FROM: MISS D M GABLE
DATE: 5 OCTOBER 1989
EXTN: 5118

PS/CHANCELLOR

cc PS/Chief Secretary
Sir Peter Middleton
Mr Anson
Dame Anne Mueller
Sir Terence Burns
Mr Phillips
Mr Luce
Mr Chivers
Mr C W Kelly
Mr O'Donnell
Ms Young
Mr Graham
Mr Bell
Mr Ellis
Mr Flitton
Mrs Chaplin

GRADES 5 TO 7 PAY

The Paymaster General has seen Mr Kelly's minute of 4 October to the Chancellor.

He has commented:

"Well done so far. I agree a Friday pm release is best".

DEANE GABLE
Assistant Private Secretary



FROM: D I SPARKES
DATE: 5 OCTOBER 1989

MR C W KELLY (PAY)

cc PS/Paymaster General
Sir P Middleton
Mr Anson
Sir T Burns
Dame A Mueller
Mr O'Donnell
Ms Young
Mr Flitton
Mrs Chaplin

mp

GRADES 5 TO 7 PAY

The Chancellor has seen your further minute of 5 October and has noted that you have now reached agreement with all three unions. He is content for an announcement to be postponed until Monday.

D.I.

DUNCAN SPARKES

MANAGEMENT - IN - CONFIDENCE

FROM: MS E I YOUNG (PAY 1)
DATE: 5 October 1989
ext: 4559

- 1. MR KELLY ^{5.10.}
- 2. CHANCELLOR

cc: Chief Secretary
 Paymaster General
 Sir P Middleton o/r
 Dame Anne Mueller
 Mr Chivers
 Mr Graham
 Mr Bell
 Mr Ellis
 Mrs Chaplin

Handwritten: CW/ I suggest this is dated Friday but dispatched first thing on Monday, except N° 10 copy. Content with draft? *EW*

GRADES 5 TO 7 PAY

You asked for a draft minute to send to the Prime Minister and MISC 66 colleagues on the outcome of the grades 5 to 7 pay negotiations. This is attached.

2. As we will not be announcing the settlement until 9 October you may prefer to delay despatching the minute until that morning.

Edna Young
 EDNA YOUNG

*Yes (as
 given
 above?)*

MANAGEMENT - IN - CONFIDENCE

~~DRAFT MINUTE FROM THE CHANCELLOR TO :~~

The Prime Minister

Psc type final

CIVIL SERVICE PAY : SETTLEMENT FOR GRADES 5 TO 7

You and other colleagues will wish to be aware of the outcome of the negotiations with the civil service unions about grades 5 to 7 pay, the last of the three civil service negotiations with 1 August settlement dates. There are some 22,000 staff involved, with a paybill in the region of £540 million. Colleagues will recall that at the MISC 66 discussion some months ago this key group of staff was identified as a priority area.

2. This was the first set of negotiations for this group under their long-term pay agreement signed in July 1988. As such it was "informed but not constrained" both by a survey of levels of pay and benefits for comparable jobs in the private sector (the "levels survey") and by a survey of settlements in the private sector in the 12 months up to last June (the "movements survey").

3. The levels survey can (and will) be interpreted in different ways. But in the negotiations some measure of agreement was reached with the unions about its main features, including in particular the substantial differentials in salaries paid in the London area compared with those elsewhere in the country. The movements survey produced an inter-quartile range of 6.5 per cent to 8.9 per cent, with a median of 7.5 per cent.

MANAGEMENT - IN - CONFIDENCE

4. Against that background, provisional agreement has now been reached with the unions on a settlement consisting of an across the board increase of 6.5 per cent, an additional spine point for all staff in London from 1 January 1990, and some adjustment of the incremental steps of the pay spine above point 15 from 1 August. This is of course in addition to the 4 per cent this group received in April. The settlement will cost 7.9 per cent in the first year, and 8.7 per cent in a full year. The extra 0.8 per cent cost will be carried over and charged against the inter-quartile range which will govern next year's negotiations. We will also be taking two points off the bottom of the grade 7 scale. The benefit of this will go almost entirely to fast-stream staff whom departments are particularly worried about losing and who would then receive substantially larger increases on promotion to the grade.

5. The unions are recommending the offer to their members, and will now consult them. We hope that this process will be completed successfully by the end of this month, so that the new rates can be paid in November.

6. In my judgement this is a ~~good~~ outcome. We have been able to target money on staff in London, and on fast-stream grade 7s, both of whom colleagues agreed were priorities. We have also been able to do some restructuring of the upper end of the pay spine, which will give most grade 5s and a few grade 6s up to 1½ per cent more than the basic 6.5 per cent increase.

MANAGEMENT - IN - CONFIDENCE

MANAGEMENT - IN - CONFIDENCE

7. We will be announcing the settlement on Monday 9 October. We will seek to present it as a settlement of 6.5 per cent with special payments in London, pointing to this as a good example of the kind of selectivity we are seeking to encourage in others, and drawing attention to the staging, and the fact that the additional costs in the second 12 months will reduce the scope for negotiations next year.

8. Copies of this minute go to members of MISC 66 and to Sir Robin Butler.

[N L]

MANAGEMENT - IN - CONFIDENCE



amp
6/10/89.
[Signature]

Treasury Chambers, Parliament Street, SW1P 3AG

01-270 3000

PS/Chief Secretary
PS/Paymaster General
Sir P Middleton
Dame A Mueller
Mr Kelly
Mr Chivers
Ms E I Young
Mr Graham
Mr Bell
Mr Ellis
Mrs Chaplin

PRIME MINISTER

CIVIL SERVICE PAY : SETTLEMENT FOR GRADES 5 TO 7

You and other colleagues will wish to be aware of the outcome of the negotiations with the civil service unions about grades 5 to 7 pay, the last of the three civil service negotiations with 1 August settlement dates. There are some 22,000 staff involved, with a paybill in the region of £540 million. Colleagues will recall that at the MISC 66 discussion some months ago this key group of staff was identified as a priority area.

This was the first set of negotiations for this group under their long-term pay agreement signed in July 1988. As such it was "informed but not constrained" both by a survey of levels of pay and benefits for comparable jobs in the private sector (the "levels survey") and by a survey of settlements in the private sector in the 12 months up to last June (the "movements survey").

The levels survey can (and will) be interpreted in different ways. But in the negotiations some measure of agreement was reached with the unions about its main features, including in particular the substantial differentials in salaries paid in the London area compared with those elsewhere in the country. The movements survey produced an inter-quartile range of 6.5 per cent to 8.9 per cent, with a median of 7.5 per cent.



Against that background, provisional agreement has now been reached with the unions on a settlement consisting of an across the board increase of 6.5 per cent, an additional spine point for all staff in London from 1 January 1990, and some adjustment of the incremental steps of the pay spine above point 15 from 1 August. This is of course in addition to the 4 per cent this group received in April. The settlement will cost 7.9 per cent in the first year, and 8.7 per cent in a full year. The extra 0.8 per cent cost will be carried over and charged against the inter-quartile range which will govern next year's negotiations. We will also be taking two points off the bottom of the grade 7 scale. The benefit of this will go almost entirely to fast-stream staff whom departments are particularly worried about losing and who would then receive substantially larger increases on promotion to the grade.

The unions are recommending the offer to their members, and will now consult them. We hope that this process will be completed successfully by the end of this month, so that the new rates can be paid in November.

In my judgement this is a satisfactory outcome. We have been able to target money on staff in London, and on fast-stream grade 7s, both of whom colleagues agreed were priorities. We have also been able to do some restructuring of the upper end of the pay spine, which will give most grade 5s and a few grade 6s up to 1½ per cent more than the basic 6.5 per cent increase.

We will be announcing the settlement on Monday 9 October. We will seek to present it as a settlement of 6.5 per cent with special payments in London, pointing to this as a good example of the kind of selectivity we are seeking to encourage in others, and drawing attention to the staging, and the fact that the additional costs



in the second 12 months will reduce the scope for negotiations next year.

Copies of this minute go to members of MISC 66 and to Sir Robin Butler.

A handwritten signature in black ink, appearing to be 'P. [NL]'.

pp. [NL] (Approved by the Chancellor and signed on his behalf)

6 October 1989

MANAGEMENT IN CONFIDENCE

CH/EXCHE	
REC.	9 OCT 1989
ACTION	Mr C.W. KELLY
COPIES TO	PS IRMG SIR P. MIDDLETON
	JANE A. MUELLER
	Mrs YOUNG.
From the Private Secretary	



9/10

romp

10 DOWNING STREET
LONDON SW1A 2AA

9 October 1989

Dear John,

CIVIL SERVICE PAY: SETTLEMENT FOR GRADES 5-7

The Prime Minister was grateful for the Chancellor's minute of 6 October. She is pleased to note that agreement on the package has been reached with the unions, who will now be recommending the offer to their members.

I am copying this letter to the Private Secretaries to members of MISC 166 and to Sir Robin Butler.

Yours,
Paul

PAUL GRAY

John Gieve, Esq.
H.M. Treasury

MANAGEMENT IN CONFIDENCE