PREM 19/2043

MT

PART 16

33/78

Confidential Filing.

Pay and Pensions.

Pay Dispute/Strike.

CIVIL SERVICE.

Part 1: May 1979

Part 16: June 1986

In Attached folder Inter-departmental Working Party on Geographical Pay in the Non-Industrial Civil Service and Summary of Report.

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
~~9.6.86~~		30.3.87					
~~29.6.86~~		PT 16					
~~21.7.86~~		GNOS					
~~31.7.86~~							
~~26.9.86~~							
~~2.10.86~~							
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~~9.3.87~~							
~~13.3.87~~							
~~16.3.87~~							
~~23.3.87~~							
26.3.87							

PREM 19/2043

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PART 16 ends:-

SS/DOG to CH. EXCH 30.3.87

PART 17 begins:-

CH. EXCH to PM 2.4.87

H M Treasury Document

Inter-Departmental Working Party on Geographical Pay in the Non-Industrial Civil Service: Report by HM Treasury, February 1987

This document has been removed and destroyed.

When released HM Treasury documents are available in the appropriate **HM TREASURY CLASSES**

Signed A Wayland

Date 4 June 2015

PREM Records Team

CONFIDENTIAL

CCB/GG

SECRETARY OF STATE FOR THE ENVIRONMENT

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
LONDON
SW1

N Bkr.

30 March 1987

DN - 15 see o/r

Dear Nigel

GEOGRAPHICAL PAY VARIATIONS

I have seen your minute of ~~9~~ at flap March to the Prime Minister and its attachments, and would like to offer a comment on what is said about local authorities in the paper on Regional Pay Variations.

You know of my view that geographical pay variation is a highly desirable objective for local authorities, as in other fields. It is being pursued in discussion with the Department of Employment, for example by looking at ways to enable local negotiating arrangements to be established. I do not believe, however, that the use of the rate support grant, as suggested in paragraph 64 of your paper, is an appropriate way to achieve our objectives on this. If we were to introduce regionally variable pay factors into our need assessments, the result would be that local taxpayers would derive no benefit from these pay variations. This is something we can consider further in the context of the Green Paper on the local government finance system. But looking forward to 1990, it seems to be preferable that the benefit of a local authority reducing its pay bill should be reflected in a lower community charge for the area; correspondingly where pay levels are locally higher then that burden should be carried through to a higher community charge.

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

Yours ever

Nicholas

NICHOLAS RIDLEY

This is 100% recycled paper

CIVIL SERVICE : Pay PT16



CCBG.

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
Telephone (Direct dialling) 01-215) 5422
GTN 215)
(Switchboard) 01-215 7877

Secretary of State for Trade and Industry

CONFIDENTIAL

26 March 1987

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
Parliament Street
London SW1P 3AG

NBBM.

Dear Chancellor,

GEOGRAPHICAL PAY VARIATIONS IN THE NON-INDUSTRIAL CIVIL SERVICE

You copied to me your minute of 9 March to the Prime Minister on this subject, together with the attached paper on the general question of regional variations in pay.

On geographical pay in the Civil Service, you will already be aware from my Private Secretary's letter of 16 March, that I favour the proposals and would like to see something done in the current year. If we cannot pay the market rate, or something close to it, then we cannot expect to recruit and retain the staff needed for the functions which necessarily have to be carried out in London and the South East.

On the wider aspects of the subject, dealt with in your second enclosure, I believe, as you know, that geographical pay variation can make a useful contribution to more realistic local labour market conditions, to the benefit of industry. But we know from experience that the means open to us to exercise effective downward pressure on pay settlements are limited, and a move away from national bargaining has not been universally welcomed in industry. It will take some time for whatever moves we are able to make to produce results.

JG2BAU

Since the options are, as the paper notes, limited, I was pleased to see that David Young's paper for the next meeting E(CP) on competition and employment law is to cover the possibility that national pay agreements involving groups of employers might be considered a restrictive practice subject to legal review. The existence of national agreements on pay and other matters, such as manning, has an impact not only in the labour market itself, but, indirectly, in the market for goods and services. Considering such agreements as restrictive practices, which could perhaps be investigated under procedures similar to current competition law, has attractions, although much work is clearly needed to establish whether such an approach would be practicable in the special and sensitive areas of pay and labour relations. While national pay agreements are the important element in the context of geographic pay variation, I hope that David Young's paper will look at the point in relation to the labour market generally.

I am copying this letter to the Prime Minister, to the other members of the Cabinet, and to Sir Robert Armstrong.

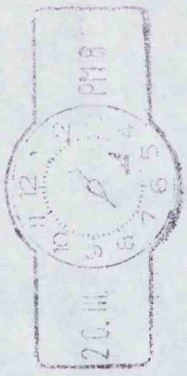
Yours sincerely,

Michael Gilbertson

PAUL CHANNON
(Approved by the Secretary of State
and signed in his absence)

JG2BAU

OVIL SERVICE : Pay PT16.



CC BG

CONFIDENTIAL

MANAGEMENT IN CONFIDENCE

P 02600

From: J B UNWIN
24 March 1987

BRIGADIER BUDD

cc Sir R Armstrong
Mr Monger
Mr Norgrove - No 10 (for info)

COPY BUDD

CIVIL SERVICE PAY

Mr Kemp telephoned me to say that he was just a little nervous about developments on the civil service pay front. Although the unions were broadly responding to the pay offer as the Treasury had expected, there was evidence that the activists in the CPSA and the Society (particularly MacReady and his supporters) were now working hard to torpedo a settlement. The formal position is that the ballots have started, and the results should be declared around 2 April, although the Treasury may get a smell of the outcome before then. If, however, the activists have any success, there could be industrial action. The most likely target areas are:-

- Customs and immigration facilities at airports and seaports (the Easter holiday rush would be an obvious target);

- DHSS and Department of Employment computer operations (perhaps less aimed at current benefit payments than at disrupting the preparations for the new social security system);

- tax collection;

- possibly court proceedings.

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MANAGEMENT IN CONFIDENCE

2. None of these (unless continued over a long period) would be likely to cause any significant economic damage, but there could be a lot of disruption at what may obviously be a very politically sensitive time.

3. No immediate action is required. The worst may not happen anyway. But I should be grateful if you would give some thought to any contingency preparations that might be necessary - presumably for the most part by Departments themselves rather than by the CCU. You might find it helpful to have a word with Mr Derek Truman at the Treasury who is in close touch with developments.

J B UNWIN


24. III.
PM 8 7

CO BG

MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1
Telephone 01-~~230 7822~~ 218 2111/3

MO 20/17/6V

23rd March 1987

Prime Minister

You had commented to Mr Younger that the answer to his staffing problems would be to move more people out of London. This is not an entirely satisfactory answer. They want to pay people more in the South East, yet complain about the cost of relocating staff.

at Flag

Yes David,

DCS 31/3.

NON-INDUSTRIAL CIVIL SERVICE PAY NEGOTIATIONS

The Defence Secretary has seen and noted your letter of 17th March about the offer put to non-industrial Civil Servants.

The Ministry of Defence is already widely dispersed and has a substantial regional presence. Nevertheless, we are constantly searching for opportunities to secure a more even spread of defence employment across the regions, provided this also meets our operational and economic needs. Since 1979, for example, the number of defence posts in London has reduced by 30% and in the South-East by 33%, against an overall MOD reduction of 23% in civilian numbers.

In addition to ensuring that our manpower economies have had a greater impact on London and the South-East, we have continued to seek every opportunity to transfer work from London. The dispersal of 1400 posts to Glasgow, now almost completed, is one such programme, and there are a significant number of other moves currently either taking place or under discussion. One of the most substantial of these is the possible relocation of 1500 posts in the Quality Assurance (QA) organisation. At present, there is £20 million in the Defence budget for bringing the QA organisation together in Woolwich. A move to a regional location would require substantial additional funding - for instance, the estimated cost of providing an integrated QA organisation in the North-East would be about £100 million.

Reductions in Ministry of Defence numbers has led to a more tight-knit and cohesive organisation from which it is proving difficult to detach elements for dispersal. Hence there are few clearcut opportunities to disperse existing defence facilities without substantial penalties. We remain determined that, in the constant drive for greater economy and efficiency in the

D Norgrove Esq
No 10 Downing Street

Department, the need to achieve a fairer geographical spread of defence employment is not overlooked. But budgetary constraints will undoubtedly thwart many of these initiatives unless some easement is made available. Meanwhile we face growing problems in recruiting and retaining staff in London and the South-East, and enormous difficulty in persuading our staff in other parts of the country to move to the South.

I am sending copies of this letter to Alex Allan (HM Treasury), the Private Secretaries to members of MISC 66, and to Stephen Boys Smith (Home Office), John Shortridge (Welsh Office), Robin Young (Department of the Environment), Rob Smith (Department of Education of Science), Robert Gordon (Scottish Office) and to Trevor Woolley (Cabinet Office).

Yours sincerely

David Ball

(D C J BALL)
Private Secretary

Civil Service: Pay & Pensions PT16



CONFIDENTIAL

cc: BG

HOME SECRETARY

QUEEN ANNE'S GATE LONDON SW1H 9AT

23 March 1987

NBM

Dear Nigel,

at flap

Thank you for sending me a copy of your minute of 13 March to the Prime Minister about non-industrial civil service pay.

I support your proposals as the best available means in your judgment of securing an early settlement without serious disruption. If we can achieve that at close to 5% the prize will be well worth achieving.

It looks as if the total effect of your proposals and the increases previously agreed would require the Home Office to absorb over £3m on the non-prisons, non-industrial pay provision of £114m (mainly for immigration and police support services). Comparable additional costs would also have to be absorbed on the prisons non-industrial side. I cannot say, at this stage, whether absorption of those significant cost increases within my running costs provision for 1987-88 will be manageable without unacceptable consequences. I therefore welcome your repeated willingness to consider any insurmountable problems during the year. The effect as a whole also, of course, puts upward pressure on running costs provision for the later years, and we shall have to take that into account in the current Public Expenditure Survey.

Copies of this letter go to the recipients of your minute.

Yours,

Douglas.

The Rt Hon Nigel Lawson, MP

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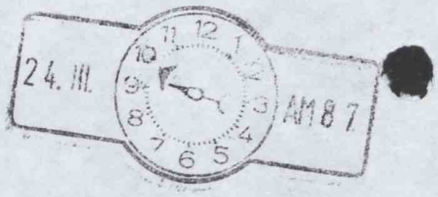

24. XII.
AM 8 7

FROM:
THE RT. HON. LORD HAILSHAM OF ST. MARYLEBONE, C.H., F.R.S., D.C.L.

HOUSE OF LORDS,
LONDON SW1A 0PW

cc BG

CONFIDENTIAL

23 March 1987

The Right Honourable
The Chancellor of the Exchequer
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

NBPN.

My dear Nigel.

Geographical Pay Variations in the Non-Industrial Civil Service

I have seen your minute of 9 March to the Prime Minister and its attachments.

I have two comments. First, my problem is to retain staff, not recruit them. Trained county court staff have skills which are in high demand by banks, insurance companies, credit houses and solicitors' offices. I have suffered substantial losses of trained staff to these competitors in places like Reading and Bristol with a consequential substantial drop in the standard of service provided by the courts. I therefore believe that pay supplements need to be available on the basis of a retention criterion alone, without the need to satisfy a recruitment criterion as well.

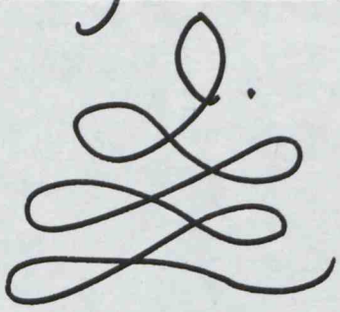
Secondly the amounts you propose will not make any inroad into the problem. Indeed the money will be wasted. An average of £200 per annum after tax, National Insurance and superannuation deductions means £2.50 per week for a newly recruited CO. That will not stop anybody from leaving. A recent survey of staff resigning from my Department showed that competitors are paying anything between £1,000 and £3,000 more per annum. We need to make available average payments of at least £1,000 per annum to make any inroad on this problem.

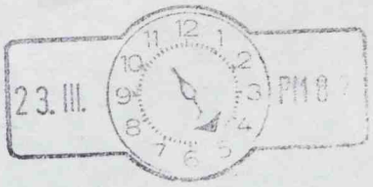
/If there were

If there were to be an experiment of this kind, could not new money be found for it, as was done with the performance bonus experiment? It is surely unlikely that Departments will be able to make many payments of a size likely to have any impact from their existing running cost limits; and smaller payments would, as I say, in my view be money wasted.

Copies of this letter go to members of the Cabinet and to Sir Robert Armstrong.

yrs:





CIVIL SERVICE
PAY
PT 16

23. III. PM 8

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SLH

CDL (no he)
Gmp A Clark DTI
M/Acts DHSS
~~DoE~~
~~DES~~
M/S +IMT
M/S. MAFF

(96)
cc BG

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

17 March 1987

NON-INDUSTRIAL CIVIL SERVICE PAY NEGOTIATIONS

The Prime Minister has seen your Secretary of State's minute of 16 March commenting on the proposed offer to be put to the non-industrial Civil Service.

Your Secretary of State drew attention to the difficulties of recruitment which may make it very difficult to continue much of the business of the Ministry of Defence in London. As you will know from my letter of yesterday, the Prime Minister is very sympathetic to the idea of regional variations in pay. But in the light of your Secretary of State's minute, she has asked whether the Ministry of Defence are now actively considering moving more of their functions out of London.

I am copying this letter to Alex Allan (H M Treasury), the Private Secretaries to members of MISC 66, and to Stephen Boys Smith (Home Office), Robin Young (Department of the Environment), Rob Smith (Department of Education and Science), Robert Gordon (Scottish Office), John Shortridge (Welsh Office), and Trevor Woolley (Cabinet Office).

DAVID NORGROVE

Ian Andrews, Esq.,
Ministry of Defence

CONFIDENTIAL

SK/A56

CONFIDENTIAL

Department of Employment
Caxton House Tothill Street London SW1H 9NF
5949
Telephone Direct Line 01-213.....
Switchboard 01-213 3000

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
Treasury Chambers
Parliament Street
LONDON
SW1H 9NF

16 March 1987

Dear Chancellor,

PAY ARRANGEMENTS IN THE NON INDUSTRIAL CIVIL SERVICE

Thank you for sending me a copy of your minutes of 9th and 13th March to the Prime Minister. I shall be writing later with my comments on the general paper on regional variations in pay.

I would be quite content with a deal on the lines you have outlined if it could be achieved at 5% or a whisker more.

I hope that, in the forthcoming negotiations the unions will be left in no doubt that what you are now proposing is as far as we are prepared to go, and that even if it was turned down in a ballot we could not increase the offer. Any doubt about that could turn the ballot into a simple vote for more pay. When employers seem disposed to move in face of hostile ballots, they merely encourage employees to reject offers which do not seem to be final.

We also need to be clear of our position if the unions are not prepared to back the new offer to the extent of not recommending strike action. If these circumstances develop I suggest we should consider making, at an appropriate time, an open offer at a shade under 5%. Simply to withdraw the new offer leaving only the original 4% or £4.50 on the table would be to invite a vote for strike action.

I have always been an advocate of sticking to running cost settlements except when there are policy changes and I trust that all Departments will be expected to do so. This Department will be particularly hit by the raising of the flat rate element and we have not yet worked out how we can fund the increase within existing cash limits, but we must attempt to do so if that is the general policy.

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I am as you now predisposed to move to geographical variations in pay and, if it could be accommodated in the financial parameters you have set, something on the lines you propose would be a useful first experimental step towards trying to ensure that. I am very disappointed to see that that element is the main candidate you put forward to be dropped to stay within the necessary limit near to 5%. I entirely agree that it would be essential to confine discreation by tight guidelines and carefully managed local consultations. Strict monitoring arrangements will also be needed. Most people who ask for local discretion are asking for permission to be allowed to pay more than they otherwise would not less! I hope that the proposals can be ranked high among the other management priorities, however, and preserved, if only on a limited basis in order to set the agenda for next year's round.

I am copying this letter to the recipients of your minute of 13 March.

Yours sincerely,

pp KENNETH CLARKE
(Approved by the Minister
and signed in his absence)


17. III.

~~LCCBG~~

Prime Minister 2
A surprisingly strong minute.
DRN
16/3

MO 20/17/6E

A move out of central London? MT

PRIME MINISTER

with DRN.

NON-INDUSTRIAL CIVIL SERVICE PAY NEGOTIATIONS

I have seen a copy of the Chancellor of the Exchequer's minute to you of 13th March, in which he proposed a new offer of 4¼% or £5.75 whichever is the greater, costing overall 4.6%.

2. In managerial terms I am afraid this offer is far from ideal for two specific reasons. First it does not do enough to solve the very real problem which we have already identified in London and the South East. If we cannot do more this year in regard to regional differentiation it is going to become very difficult to carry on a lot of the business of central government in London so far as the Ministry of Defence is concerned, because shortages of junior staff are becoming so serious. An improvement in this area is becoming a management imperative.

3. The second point about the Chancellor's offer which causes me concern is the way that it sacrifices the interests of the lower managerial grades in order to provide more attractive terms for clerical grades. I believe that this too is contrary to our managerial aims in the Civil Service. Morale in these lower managerial grades is already low and what is proposed will worsen

it. Yet we are critically dependent on the efficiency and motivation of the staff in these grades for virtually the whole work of government. In the Ministry of Defence I have the particular problem of the gap which has widened between them and their military colleagues with whom many work very closely. I hope therefore that we will not regard the Chancellor's proposals as a final offer. I do not believe that they fully meet the managerial needs of the Civil Service.

4. I am sending copies of this minute to the Chancellor of the Exchequer, the other members of MISC 66, the Home Secretary, the Secretaries of State for the Environment, Education, Scotland and Wales and to Sir Robert Armstrong.

G.Y.

Ministry of Defence
16th March 1987

LCCBG

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
Telephone (Direct dialling) 01-215) 5422
GTN 215)
(Switchboard) 01-215 7877

PS/ *Secretary of State for Trade and Industry*

CONFIDENTIAL

16 March 1987

Alex Allan Esq
Chancellor of the Exchequer
HM Treasury
Parliament Street
London SW1P 3AG

NBBM.

Dear Alex

with DRN.

NON-INDUSTRIAL CIVIL SERVICE PAY NEGOTIATIONS

My Secretary of State, who is out of London today, has asked me to pass on his comments on the Chancellor's proposal for the Civil Service pay negotiations set out in his minute of 13 March to the Prime Minister.

My Secretary of State favours an early outcome to these negotiations this year and would support the offer proposed if, in the Chancellor's judgement, that is what is necessary to secure that outcome. His one point of concern is what the Chancellor said about regional differentiation favouring London and the South East. He trusts that this does not mean that we shall not be, at an early date, in a position to pay the market rate for clerical and other junior staff in this part of the country, since we are at present having difficulty in adequate recruitment and retention at these levels.

I am sending copies to the Private Secretaries to the Prime Minister, the other members of MISC 66, the Home Secretary, the Secretaries of State for the Environment, Education, Scotland and Wales and to Sir Robert Armstrong.

Yours sincerely

Timothy

TIMOTHY WALKER
Private Secretary

JG1AUT

999-1

LCCBO

PRIME MINISTER

NBM.

NON-INDUSTRIAL CIVIL SERVICE PAY NEGOTIATIONS

with DRA

The Chancellor sent me a copy of his minute to you of 13 March.

I welcome the prospect of a Civil Service settlement at 4.25 per cent for most of our staff, but with a £5.75 a week underpinning which increases the total cost to 4.6 per cent. If we can achieve a Civil Service settlement which can be presented as well below 5 per cent, that will be an important step forward.

I note, however, that some other elements are likely to be included in the settlement which will raise the total cost to 5 per cent or a little more. This Department does not have details of exactly what is contemplated, and I have therefore been unable to assess exactly what the overall implications are for the running of my Department. But it seems clear, if we are at all typical, that the overall cost could well be more than we can reasonably absorb within running costs provision for 1987/88. There will be inescapable knock-on effects for the Science Budget. A settlement costing 5% more overall for their non-scientific civil service analogues will cost the Research Councils in all some £2-3m more than the 1986 PES provision - which provided only 2.5% in 1987/88. It will mean even greater reductions in university research grants and postgraduate training awards.

I therefore welcome the Chancellor's assurance that if insurmountable problems were to emerge in the course of the year, it would be open to me to discuss them with the Chief Secretary.

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

KB

16 March 1987

Department of Education and Science



CONFIDENTIAL

CC 84

DN

CABINET OFFICE,
WHITEHALL, LONDON SW1A 2AS

Chancellor of the Duchy of Lancaster

Tel No: 270 0020
270 0296

16 March 1987

Alex Allan Esq
Principal Private Secretary to the
Chancellor of the Exchequer
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

NBBR -

Dear Alex,

NON-INDUSTRIAL CIVIL SERVICE PAY NEGOTIATIONS

The Chancellor of the Duchy has seen the Chancellor of the Exchequer's minute of 13 March to the Prime Minister, and also his minute of 9 March concerning geographical pay variations.

Mr Tebbit agrees that a final offer should be made on the terms proposed by your Chancellor. He recognises that this will not make it possible to introduce increased regional differentiation this year. The Chancellor would welcome the opportunity to discuss the proposals on geographical pay variation, not least to assess whether the increments proposed are sufficient to have the necessary effect. This may, in any case, suggest changes over several years, which may be best proceeded upon next year after careful preparation.

The "headline" total of the pay award will be important; that for the IPCS award concentrated unhelpfully on the higher pay bill effects.

I am sending a copy of this letter to David Norgrove (No. 10), the private secretaries to other members of MISC 66, to Stephen Boys-Smith (Home Office), Jon Shortridge (Welsh Office), Robin Young (DOE), Rob Smith (DES), Robert Gordon (Scottish Office), and to Trevor Woolley (Cabinet Office).

Yours sincerely,
Andrew Lansley

ANDREW LANSLEY
Private Secretary

CIVIL SERVICE : Pay PT 16

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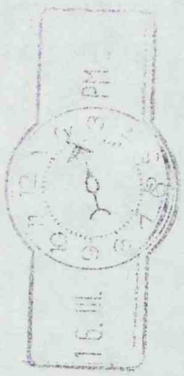


CONFIDENTIAL

cc BG
M/HMT
PM
MOD
M/ANS
M/T+I
DASS

VC
DOE
DES
M/MAFF
HO
SO
WO
CO

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

16 March 1987

Dear Tony,

NON-INDUSTRIAL CIVIL SERVICE PAY NEGOTIATIONS

The Prime Minister has seen the Chancellor of the Exchequer's minute of 13 March about the proposed offer to be put today to the non-industrial Civil Service staff and, subject to views of colleagues, is broadly content.

The Prime Minister has also seen the Chancellor's minute of 9 March about geographical pay variations in the non-industrial civil service. In the light of that, and of the further work which officials have carried out, the Prime Minister believes that introducing greater variation should be a very high priority. She understands why the element of regional differentiation which was originally to have formed part of today's offer is now not going to be included. But she has asked that the possibility should be left open of introducing it after the main settlement, perhaps later in the spring. This would of course have the advantage of distancing it from the main settlement. The Prime Minister hopes the Chancellor will return to this when the current negotiations with the non-industrial Civil Service are out of the way.

I am copying this letter to the Private Secretaries to the other members of MISC 66, the Home Secretary, the Secretaries of State for the Environment, Education, Scotland and Wales and to Sir Robert Armstrong.

Yours,

David.

DAVID NORGROVE

Tony Kuczys, Esq.,
HM Treasury.

CONFIDENTIAL

PRIME MINISTER

CIVIL SERVICE PAY

The papers below are:

A Note by the Policy Unit on the latest Civil Service pay discussions

B Minute by the Chancellor about the pay negotiations

C Note by the Policy Unit about geographical pay variations in the Civil Service

D Note by the Chancellor about geographical pay variations.

I have not included a very substantial paper about regional pay variations generally or a massive report by officials on geographical pay in the Civil Service.

The Chancellor now wishes to offer the non-industrial Civil Service a package worth overall about 4.6% without the IPCS deal. Changes designed to help management would take the average cost to "a whisker" over 5%.

Separately officials have worked up a scheme for introducing greater geographical pay variation in the Civil Service. The Chancellor's commends this in his minute at Flag D. The cost would be under 0.2% in 1987/88 and 0.35% in a full year.

The pity is that the Chancellor has decided to recommend against including any element of geographical pay variation in the package he wishes now to put to the unions, in order to constrain the total size of the Civil Service pay award.

This could well cause embarrassment. The Paymaster General has made two major speeches in the past fortnight arguing for greater regional pay variation and the IPCS deal has been widely criticised (though wrongly) by the Government's supporters and the serious press for not doing enough to encourage such variation. The Treasury has been accused of standing in the way of it. As the Policy Unit note at Flag A argues, it is also highly valuable for itself.

The Policy Unit also recommend that you ask for reinstatement of a proposal to give the best Principals and Assistant Secretaries at the top of their scales an extra increment. This would be worth doing, and you will want to consider it. But you may feel that it would be better to concentrate your support on geographical pay.

I recommend that you comment as follows:

(i) agree the terms of the proposed offer, subject to the views of colleagues;

(ii) welcome the thorough analysis of geographical pay in the reports and say that greater geographical variation should be a very high priority;

(iii) urge that a way should be found after all of incorporating geographical pay variations into the pay offer to the non-industrial Civil Service, both for its own importance and in view of the stress which has been placed on it in recent weeks;

(iv) but if this cannot be done, I ask that the possibility should be left open of introducing it after the main settlement, perhaps in the spring. This would distance it from the main settlement.

Agree?

DAW

(DAVID NORGROVE)

13 March 1987

PRIME MINISTER

13 March 1987

NON-INDUSTRIAL CIVIL SERVICE PAY NEGOTIATIONS

The Chancellor has minuted you seeking agreement to making a revised pay offer to the Civil Service unions of 4.25% with up to £5.75 underpinning plus some additional increases to buy changes that are desirable on management grounds but will in total increase the pay bill by a little over 5%. The offer would be made on condition that union leaders would put it to their members with, at least, a neutral recommendation. Establishment Officers believe on that on this basis union members will vote against strike action. If anything less is offered, there will be a recommendation in favour of a strike and the mood of Civil Servants this year, which is influenced by the teachers' settlement amongst other things, is such that they would vote to strike.

The Government has succeeded over the last few pay settlements in keeping Civil Service pay increases both just below the rate of inflation and the lower quartile of private sector settlements. Civil Servants have seen a relative reduction in their pay. The trick now must be to maintain that relative reduction or risk provoking the kind of catching up exercise we have seen in the past. Although the Chancellor's package seemed a little higher than one would ideally like, it is not so high as to affect adversely expectations in the private sector and if it secures peace looks a good bargain.

The Civil Service has no difficulty in recruiting in the regions; indeed in some areas it is so embarrassed by the number of applicants for clerical posts that it actively has to discourage them. The pressures on Civil Service pay will come in London and the South East on the one hand with clerical staff where recruitment and retention are

increasingly difficult and on the other hand with Principals and Assistant Secretaries who are increasingly leaving the Service for jobs at salaries several times higher in the City. Against this background it does not appear sensible, as the Chancellor appears to envisage, to scrap the idea of making a move towards greater geographical variation in pay in the current settlement. The cost is small (around £10m) compared to the potential benefits of avoiding a pay explosion. Nor does it appear sensible to drop earlier proposals, which are not mentioned in his minute, to add an extra point, to be paid only to the best staff, to the top of the Principal and Assistant Secretary scales.

Conclusion

A settlement along the lines proposed by the Chancellor, if it will buy acquiescence, is good value for money since it maintains the Government's achievement in ratchetting down Civil Service pay over the last few years. But it would be unwise to ignore the pressure points that are building up around clerical and secretarial pay in London and the South East and good quality senior staff. The proposals to introduce geographical pay supplements and for giving the best Principals and Assistant Secretaries at the top of their scales an extra increment should not be dropped.

Peter Stredder

PETER STREDDER

psl/36A

CONFIDENTIAL

cc BG

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

PRIME MINISTER

NON-INDUSTRIAL CIVIL SERVICE PAY NEGOTIATIONS

Since we last discussed Civil Service pay, events have moved quickly. As you know, the provisional agreement with the IPCS has been made public; and the other unions have, as agreed, been offered 4 per cent or £4.50 a week, whichever is the greater. This they rejected, by return of post.

Since then, my officials have been busy exploring informally with the unions whether there is a package which they would be willing, if not to recommend, at least to put to their members without any recommendation to reject, and which has a reasonable chance of an early and peaceful outcome. Although the situation is inherently uncertain, it now seems we may be able to achieve such a package.

The main element of the package would be a new offer of 4¼ per cent or £5.75 a week, whichever is the greater, costing overall about 4.6 per cent without the IPCS deal. A £5.75 underpinning would be the maximum, and my officials would try, if possible, to do better.

There are as well various changes which management wishes to make, but which have some negotiating value. As well as the important IPCS flexibilities, these include a restructuring of the executive grades scale; changes needed to help some recruitment and retention difficulties with lawyers, accountants and computer staff, and a reduction in the waiting period before staff qualify for five weeks annual leave. There are also the proposals for geographical pay about which I minuted you on 9 March.

Yours ever,

If we were to implement all these changes, that would add nearly a further 1 per cent to the paybill, on top of the 4.6 per cent from the new offer (and of course on top of the 1 per cent already being carried forward from last year's pay deal). I do not think we can go that far. But I would be content for the most important additional changes to be added to the package if that would be enough to swing the deal, provided that the total cost was close to 5 per cent.

A package on these lines is not ideal. In particular, the underpinning (a negotiating inevitability given the importance of the CPSA) is higher than we should like, and has the effect of giving lower paid people a larger percentage increase than better paid people. And I regret that it may well mean foregoing on this occasion any regional differentiation obtained by paying more in London and the South-East. But it would be significantly lower than the settlement last year, and if the aim is a quick outcome with the risk of industrial action minimised, then an offer along these lines seems to be the best that can be achieved. For purposes of presentation we would of course only quote the 4¼ per cent and the 4.6 per cent.

Major employing departments have been kept in touch with Treasury thinking as it has developed. A deal with an overall average cost of 5 per cent or only a whisker more should be manageable within the running cost limits already set. But of course I stand by what I said at MISC 66 on 17 February, that if insurmountable problems were to emerge in the course of the year it would be open to Ministers to dicuss them with the Chief Secretary.

I therefore propose that we make a final offer on the lines above. This would be on condition that the unions put the

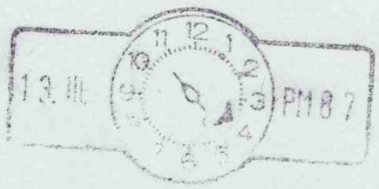
package to their members, if not with a positive recommendation, at least without a recommendation against. If that condition is met, I would instruct my officials to move to clinch the deal early next week, but handling matters so that the offer does not become public until after my Budget Statement.

I should be grateful to know if you and others are content, and for any comments by 4.00 pm on Monday, 16 March, since we now need to move very fast.

I am copying this to the other members of MISC 66, the Home Secretary, the Secretaries of State for the Environment, Education, Scotland and Wales, and to Sir Robert Armstrong.

N.L.

13 March 1987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PRIME MINISTER

13 March 1987

GEOGRAPHICAL PAY VARIATIONS IN THE NON-INDUSTRIAL CIVIL SERVICE

The Chancellor has sent you a copy of the Treasury's Working Group on introducing geographical pay into the non-industrial Civil Service.

Justification

Greater geographical variation in pay in the economy generally could make a major contribution by reducing costs in areas of high unemployment. In the Civil Service, it would reduce the cost of moving Government work out of London and the South East and help with the recruitment and retention problems that the Treasury's report clearly identifies in London and the South East.

Practical Issues

In practical terms, geographical pay can only be introduced without major disruption with the co-operation or at least acquiescence of the unions, most of whose members work outside London and the South East. This means that we can at most hope to see a reduction in pay levels in the regions relative to those in London and the South East and that pay increases need at least to match inflation. If the overall cost is to be contained within running cost limits, this means only a relatively small sum available each year for higher increases in London and the South East. But provided this approach is followed for several years, substantial variations can be created.

Treasury Proposals

In order to create the best use of limited resources the Treasury propose to target pay increases on those groups of staff where recruitment and retention problems are greatest.

This means clerical and secretarial staff in some, but not all, offices in Greater London and an 'amoeba' around it stretching out as far as Reading, Guildford, Tunbridge Wells and Stevenage plus towns elsewhere with particular problems. around it. Departments will be given discretion as to which staff and which offices will get the increments within a maximum of £500 a year per person and an average of £200 a year. There will be arrangements to ensure that other Departments with offices in the area are consulted. Some increases will also be allowed for the most junior managers to cope with relativities problems (because of increases given to clerical staff in recent years, junior managers may well have staff working for them who earn more than they do).

Cost

The overall cost of the Treasury's proposals will be 0.2% of the pay bill in 1986/87 (because they will be introduced from October at the earliest) and 0.35% in a full year. Although these percentages seem small they allow quite substantial percentage increases for some of the staff involved (up to 9% for a senior clerical assistant) and, if the approach is repeated in the next three or four settlements, could make a substantial impact on the problem.

Conclusion

We support the Chancellor's proposals. Although they do not go as far as one would ideally like they are the best we can reasonably expect given the constraints. If repeated in the next few pay settlements they could lead to major geographical variations in Civil Service pay.

Peter Stredder

PETER STREDDER

CIVIL SERVICE : Pay : Pt 16

3043/21/JS

CONFIDENTIAL

CJBG

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

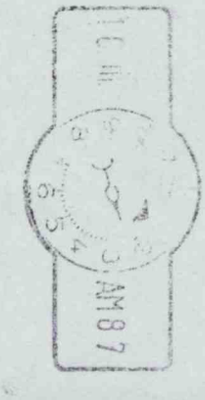
PRIME MINISTER

GEOGRAPHICAL PAY VARIATIONS IN THE NON-INDUSTRIAL CIVIL SERVICE

When we discussed my outline proposals for introducing some geographical variation into civil service pay, you asked for a fuller analysis. I now enclose the report of an inter-departmental working party under Treasury chairmanship, which has been looking at the evidence and considering the possible ways forward.

In folder attached to file. CIVIL SERVICE PAY: Pt 16

The working party has identified persuasive evidence of serious problems in recruiting and retaining civil servants in many areas in and around London, and in pockets elsewhere. These lead to costs and inefficiencies, and pay is part of the reason. The question is how to tackle the problem areas without adding too much to the cost of the civil service. The approach recommended is to allow departments to pay extra in parts of the South East (the South East Supplement), and in particular places elsewhere (local pay additions). Although departments would have some detailed discretion, this would be within rules and criteria established centrally which would include limits on the maximum and average payments. For practical reasons the arrangements could not be introduced until at the very earliest, 1 October 1987, (or possibly later). The size of payments suggested in the report would have a full-year cost of around 0.35 per cent of the non-industrial civil service paybill. The 1987-88 cost would be some £8-9 million, or under 0.2 per cent of the pay bill, and that only if the scheme came into full operation from 1 October this year. All costs would, of course, have to be met from Departments' running cost limits. Although in the short-term it can be argued that the costs would be largely additional, the benefits of better balancing of the



paybill as between high and low cost areas (so that the first does not drag up the second) should lead to savings.

When drawing up the outline scheme officials have paid particular attention to the need for local consultation between different departments. Recent events at Reading and Livingston have shown all too clearly how essential this is.

The proposals as to control and administration require further detailed consideration and refinement. They are therefore currently being tested in two "dry runs", one involving six major departments across the country, and the other focussing on four specific areas - Cambridge, Glasgow, Guildford and Greenwich to examine how departments would intend to operate the scheme in practice. The detailed arrangements may be modified in the light of these exercises. Even so, any scheme implemented would be regarded as experimental. It would be monitored very closely, with particular attention paid not only to the benefits in terms of lower resignation rates but also to the costs, including the administrative costs involved. It is envisaged that the scheme would be reviewed within two years.

I believe that a scheme along the lines recommended by the working group would be a further important move towards greater flexibility in civil service pay. The proposals are consistent with the wider approach to flexibility which is provided for in the provisional agreement with the IPCS.

As you know, the unions have already been put on notice that we will be bringing forward proposals. Handling will need careful consideration, and I shall wish to return to this when I next report to you on progress on the 1987 pay negotiations. Meanwhile, I hope that you will agree the general approach outlined above, subject to the detailed arrangements being considered further in the light of the dry runs and the views of departments.

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In folder attached to title CIVIL SERVICE: Pay: Pt 16

I am also enclosing a more general report on regional pay variations, in the economy generally, which contains some suggestions for tackling the issue elsewhere in the public services. I would be glad to receive colleagues' views on these suggestions.

Copies of this minute and the enclosures go to members of the Cabinet and to Sir Robert Armstrong.

N.L.

9 March 1987

cc: B/Hp. C

Ref. A087/624

MR WICKS

Northern Ireland Permanent Secretaries

When I see the Prime Minister tomorrow, I should like to have another word with her, if I may, about the proposals made by the Secretary of State for Northern Ireland for bringing all six Permanent Secretaries of Northern Ireland departments on to Grade 2 level. At present three are already at that level; the other three are between Grade 2 and Grade 3. The correspondence rests on the Secretary of State's minute of 24 September 1986.

2. The new element which causes me to ask to have another word is the implication of the introduction next financial year of performance-related discretionary increments for Grade 3. This scheme will operate for the Northern Ireland Civil Service, as for the Home Civil Service. The introduction of discretionary increments at Grade 3 will further erode the differential between those Grade 3s who get discretionary increments and the lower tier Permanent Secretary posts: it could thus make promotion to a Permanent Secretary post from a Grade 3 post with a discretionary increment relatively small and even (if somebody had been getting a discretionary increment at the top level) non-existent. I am advised that there could indeed be a situation in which one of the lower tier Permanent Secretaries could find working for him a Grade 3 who (with his discretionary increment) was earning more than himself. Apart from the perception of unfairness to which this would give rise, it could complicate the choice of new appointments to Permanent Secretary posts, four of which are due to fall vacant between now and 1990.

3. These considerations supplement the arguments which the Secretary of State for Northern Ireland has put to the Prime Minister. I attach a background note which goes into more detail about the posts concerned, and about the case for putting them all at the same level.

RA

5 March 1987

ROBERT ARMSTRONG

Northern Ireland Permanent Secretaries

Although the Northern Ireland Departments are small by comparison with the major Whitehall Departments (though not with smaller Departments like the Lord Chancellor's Department or the NIO itself), the responsibilities of the Heads of Department are considerable. For example, the Permanent Secretary of the Northern Ireland DHSS (which is one of the second-tier posts) has a staff of 6,500 and is Accounting Officer for expenditure amounting to £2,100M a year. His management team includes a Chief Medical Officer who ranks as a NI Permanent Secretary, five Under Secretaries and two Deputy Chief Medical Officers at equivalent level. To head a department of this size, with responsibility for its management and resources as well as for policy matters, is in many respects a heavier task than being a deputy in a larger Department where ultimate responsibility lies with the Permanent Secretary.

2. Since the Herbecq review of these posts in 1982 (as a result of which the existing differentials were introduced) workloads have increased for a number of reasons, among them the --- Anglo-Irish Agreement. Attached as annexes to this note are a series of outline job descriptions which illustrate the range of responsibilities covered by these posts. The job weights vary; but all would seem to fall within the range covered by Deputy Secretaries in Whitehall and some are at the upper end of the range. And all are Accounting Officers and as such answerable to the Public Accounts Committee (which Deputy Secretaries in Whitehall are not).

3. Direct rule and the centralisation of services following the McCrory Report came together in the early 1970s to produce a new situation in terms of the balance of responsibility between "central government" and other authorities, for which there is

no parallel in Great Britain. Apart from the District Councils whose functions are limited to such matters as refuse collection, burial of the dead and recreational facilities, there is no local government in Northern Ireland. What would normally be the upper tier of local government (with its consequent responsibilities and resource needs including senior posts) is replaced in large measure by the Northern Ireland Departments. And various other functions which are performed in Great Britain by statutory bodies such as the Manpower Services Commission, the Health and Safety Executive and the Forestry Commission are in Northern Ireland undertaken by central government. Because Northern Ireland has had devolved government in the past and it remains the objective to return to this, some programmes like social security which for the rest of the United Kingdom are controlled from London are dealt with locally. These factors increase the loading on Northern Ireland departments and affect the number of senior civil service posts.

4. It has been suggested that, if the Scottish Office needs no more than six Deputy Secretary posts, the Northern Ireland Office should need fewer, because the population of Northern Ireland is less than one-third that of Scotland. The differences to which previous paragraphs have drawn attention demonstrate that comparisons of population size are not a sufficient indicator of comparative workload. In terms of the cost of services provided by central government, which would reflect some of the differences mentioned above, the Northern Ireland block amounts to about £4.6 billion a year, while the Secretary of State for Scotland is directly responsible for some £3.9 billion (ie excluding local authority and social security spending).

ANNEX 1

PERMANENT SECRETARY, DEPARTMENT OF FINANCE AND PERSONNEL

1. Context

Accounting Officer - £40m Departmental Expenditure.

1,600 staff. 5 Under Secretaries directly reporting.

2. Major Areas of Responsibility in Brief

a. Overall financial management of NICS, circa £4b per annum.

b. Control of Supply in respect of Northern Ireland Departments.

c. Provision of Central Research and Advisory capability in Economic, Social and Statistical areas to Northern Ireland Departments.

d. Provision of Central Efficiency Services, embracing IT, Management Services, Data Processing.

e. Provision of Central Personnel Functions to NICS, including Industrial Relations, Recruitment, Management Training.

f. Valuation and Lands Services throughout Northern Ireland.

g. Equality of Opportunity Policy and Programme for NICS.

h. Law Reform in the fields of Land and Family Law and other not clearly falling to other Departments.

3. Representational

a. Chairman, NI Central Whitley Council.

b. Chairman, NI Civil Service Commission.

c. Chairman, Economic Steering Group, Audit Review Group.

d. Member of wide-ranging formal and informal Groups within NICS and wider public service community.

ANNEX 2

PERMANENT SECRETARY, DEPARTMENT OF ECONOMIC DEVELOPMENT

1. Context

Accounting Officer - £315m per annum.

2,600 staff. 4 Under Secretaries directly reporting, apart from Chief Executive, IDB, and his 2 Under Secretaries.

2. Major Areas of Responsibility in Brief

a. Formulation of broad industrial policy in Northern Ireland.

b. Manpower policy and implementation - including industrial and management training, the Employment Service; YTP, etc.

c. Health and Safety Executive.

d. Energy.

e. Tourism.

f. Shipbuilding and Aircraft - Harland and Wolff Ltd; Short Bros Ltd.

g. Companies Regulations.

h. Consumer Protection.

i. Ports and Harbours.

j. Minerals.

k. Non-selective assistance to industry.

l. Development of major Equal Opportunity policy in Northern Ireland, including current "sponsoring" of the FEA and EOC.

m. Overall resource manpower responsibility for the IDB.

3. Representational

Substantial contacts with CBI and TU movement in Northern Ireland; with NI Electricity Service; Local Enterprise Development Unit; NI Tourist Board: Enterprise Ulster; major companies such as Harland and Wolff and Short Bros; and with counterpart Home Civil Service Departments, etc.

ANNEX 3

PERMANENT SECRETARY, DEPARTMENT OF THE ENVIRONMENT

1. Context

Accounting Officer - £625m per annum.

10,200 staff. 6 Under Secretaries directly reporting.

2. Major Areas of Responsibility in Brief

a. Provision of Public Sector Housing through the NI Housing Executive - Policy and Programme Finance.

b. Strategic Land Planning.

c. NI Infrastructure - roads, bridges, water supply, sewerage, etc.

d. Transportation, including Licensing and Road Safety.

e. Fire Protection and Pollution Control.

f. Conservation.

g. Oversight of District Councils.

h. Works Service (NI equivalent of PSA).

i. Ordnance Survey.

j. Registry of Deeds and Public Record Office.

3. Representation

Major contacts with NI Housing Executive, District Councils and Belfast City Council, professional bodies (since this Department employs all Planners, Architects, Engineers, etc, in NICS).

ANNEX 4

PERMANENT SECRETARY, DEPARTMENT OF EDUCATION

1. Context

Accounting Officer - £675m per annum.

600 staff. 3 Under Secretaries directly reporting.

2. Major Areas of Responsibility in Brief

A. Primary and Secondary Education through -

a. Controlled Schools managed by 5 directly funded by DENI Area Education and Library Boards.

b. Voluntary (maintained) Schools segregated by religion outside the Area Boards system.

c. Special Schools for the Handicapped.

B. 26 Colleges of Further Education.

C. Higher Education - 2 Universities, 2 Teacher Training Colleges.

D. Community and Adult Education.

E. Examinations

F. Library Services.

G. Youth Services - Controlled and Voluntary.

H. Arts and Museums.

I. Sport and Recreation.

J. Community Services and Facilities.

K. Education component to YTP Programmes.

3. Representational

University Grants Commission assessor; Chairman of six advisory and co-ordinating bodies across the range of educational activity in NI; major contact with Vice-Chancellors and senior academics; Chairman of Area Boards; Church Authorities; Teaching Unions; Governing Bodies of Schools, etc.

ANNEX 5

PERMANENT SECRETARY, DEPARTMENT OF AGRICULTURE

1. Context

Accounting Officer - £81.4m plus and Agency responsibility to MAFF and Intervention Board for further substantial spending.

4,500 staff. 5 Under Secretaries and 2 Assistant Secretaries directly reporting.

2. Major Areas of Responsibility in Brief

A. Development of Agricultural and Horticultural Policy and Programmes within UK and EC contexts.

B. Sea and Inland Fisheries.

C. Forestry.

D. Inland Maingates, Drainage and Water Recreation.

E. Agriculture and Food Education Authority in Northern Ireland.

F. Provision of:-

- Agricultural and Horticultural Advisory Service;
- 3 Agricultural Colleges;
- Professorial and Lecturing staff to specialist Departments in the Faculties of Agriculture and Food Science at QUB;
- Economic Research in farming, forestry, fisheries and processing;
- Research and Development;
- Agricultural training.

3. Representational

Wide-ranging contacts with other UK Agricultural Departments and with EC; with Ulster Farmers' Union; Marketing Boards and statutory bodies; the Queen's University of Belfast, since the Department provides the staff for the Faculty of Agriculture and Food Science; the ROI in cross-border issues such as drainage, sea fishing, animal health, etc.

ANNEX 6

PERMANENT SECRETARY, DEPARTMENT OF HEALTH AND SOCIAL SERVICES

1. Context

Accounting Officer - £2,100m.

6,500 staff. 1 Chief Medical Officer of currently equal rank. 5 Under Secretaries and 2 Deputy Chief Medical Officers directly reporting.

2. Major Areas of Responsibility in Brief

A. Health and Personal Social Services through 4 Area Boards and 2 Central Agencies.

B. Social Security.

C. Administration of Medicines and (through District Councils) Food and Drugs Legislation.

D. The NI Census.

E. Registrar General.

F. Social Policy - betting and gaming; liquor licensing; live hare coursing, etc.

G. Provision of professional services in medical and allied fields to NI Departments (eg Prison Medical Service).

3. Representational

Chairman - Social Steering Group. Wide range of contacts with Health and Social Services Boards; BMA; BDA and an extensive voluntary sector. With the UK Health Departments, UK Regulation on training bodies such as GMC; GDC; the professional bodies; University Departments, etc.

ANNEX 7

CHIEF EXECUTIVE, INDUSTRIAL DEVELOPMENT BOARD

1. Context

Accounting Officer - £115m.

300 staff - 2 Under Secretaries and 1 Assistant Secretary directly reporting.

2. Major Areas of Responsibility in Brief

A. Promotion of Inward Investment.

B. Protection, support and development of existing manufacturing industry/employment (some 450 Companies with a labour force in excess of 60,000).

C. Principal adviser on industrial casework.

D. Provision of:

a. selective financial assistance;

b. assistance for research, development and marketing; and

c. sites and premises for industry.

3. Representational

High profile within NI; GB; North America; Far East and Europe - staff employed in all these areas; with Chairman and members of the IDB; media, and senior personnel, etc, of current NI manufacturing companies and potential investors.

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bc BG

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

2 March 1987

Dear Tony,

CIVIL SERVICE PAY 1987

The Prime Minister has seen the Chancellor's minute of 26 February and has noted the terms of the pay offer which the Treasury intends to put to the Civil Service Unions this week.

I am copying this letter to the Private Secretaries to the other members of MISC 66, Stephen Boys Smith (Home Office) and to Trevor Woolley (Cabinet Office).

Yours,
David.

David Norgrove

Tony Kuczys, Esq.,
H.M. Treasury.

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ps3/14R

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CCBG

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

Prime Minister 2

This is I think the first most colleagues will have heard of the increase in DHSS staff numbers and running costs.

DHS 27/2

PRIME MINISTER

CIVIL SERVICE PAY 1987

This note follows the meeting of MISC 66 of 17 February.

The Treasury proposes to make its main pay offer to the Civil Service unions as soon as possible. Ideally this would be tomorrow, Friday, but for practical reasons it may have to be Monday. The offer is for an increase of 4 per cent coupled with an underpinning of £4.50 per week, for adults; £3 per week for juveniles; modest London Weighting and leave proposals; and offers to discuss the various unions' sectional claims. At the same time it would be announced that the Government have reached agreement with the IPCS on the lines we discussed in MISC 66. The total value of this offer, excluding the cost of the IPCS deal, is about 4.2 per cent in 1987-88; inclusive of the IPCS deal it is about 4.4 per cent.

The figures would not, however, be published in this way. The IPCS deal and the others will be kept separate, and the emphasis put on the "RPI" link for the IPCS and the 4 per cent for the rest. Whether, when and to what extent we may wish to improve the 4 per cent offer in negotiation depends on how it is received by staff; it is certainly not going to be perceived as generous but I hope it will prove sufficiently attractive to avoid the knee jerk industrial action that has been talked about.

On geographical pay, MISC 66 invited me to circulate more detailed proposals amplifying the outline in Annex E to the Treasury paper we then discussed. This will be done shortly; meanwhile the

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immediate offer will do no more than hint at our thinking: details can be put forward later.

I should record that alongside this offer there are the proposals which Norman Fowler has put forward, which you have agreed to, for an increase of some 4,000 in DHSS staffing to meet essential operational needs in social security offices, coupled with the associated inevitable increase of some £43 million in DHSS running costs. While not going as far as staff would have wished, these improvements will be helpful in the pay context particularly so far as the CPSA, which is of course the key union, is concerned, although they and David Young's employment measures will take total Civil Service manpower plans for 1.4.88, to be published on Budget Day, above our announced target. We will therefore have to resist further manpower increases. Treasury officials will liaise with DHSS officials over the precise timing and handling of the announcement of this.

I am copying this minute to the other members of MISC 66, to the Secretary of State for the Home Department, the Environment, and Education and Science, and to Sir Robert Armstrong.

N.L.
26 February 1987


27.1.

PRIME MINISTER

MISC 66

Mr. Fowler is giving a press conference tomorrow afternoon on the allocation of money for the reduction of waiting lists, and therefore has asked that MISC 66 be delayed until 1715. The Treasury agree that it is very important that he be there and we have therefore rescheduled the meeting, but you will wish to be aware that both Lord Young and the Chancellor must get away at 1800 sharp and you will only have 45 minutes for the discussion. It is possible that Mr. Luce and Mr. Gummer will have to leave even earlier.

(P. A. BEARPARK)

16 February 1987

CC/UP

PRIME MINISTER 16 February 1987

CIVIL SERVICE PAY 1987

You are meeting to discuss the 1987 Civil Service pay negotiations. The Chancellor minuted you about these on 12 February.

Treasury officials are working to instructions to secure a settlement involving an increase in the pay bill of not much over the rate of inflation (ie a total of 4½-5%). There is not much to report on negotiations with most of the unions since discussions have yet to get under way. But the Treasury think that they can reach a fairly quick settlement with the CSU (the messengers union) and on a radical new pay structure and long term pay deal with the IPCS.

New Pay Structure

We strongly support the proposed deal with the IPCS which would replace the present system of national incremental pay scales for particular grades with a new system allowing pay rates to vary to reflect market conditions and pay increments to reflect individual merit. There would also be an agreement on long term pay on the lines of the Government offer that is still on the table for all the unions. We hope that similar arrangements can be negotiated in due course for the rest of the Civil Service.

Performance Bonus

The Treasury also propose continuing the present performance bonus scheme for grades 4-7 for a third year. We reluctantly accept this for the reasons given. But there should also be a clear commitment to introducing a proper performance related pay scheme for these grades from 1 April 1988 along the lines of schemes you recently approved for Grades 2 and 3.

Geography

The last Ministerial meeting on Civil Service pay concluded that there should be a significant move to geographical pay in the 1987 pay settlement. Since the Treasury are unlikely to reach agreement with the unions on a general settlement that is less than the rate of inflation (ie around 4%) there is little money left to fund extra pay increases for staff in London and the South East. The Treasury therefore propose to concentrate the resources available on those junior staff where recruitment and retention problems are most acute.

This is sensible in the short term but is not sustainable in the long term because by increasingly compressing differentials it stores up future problems with more senior staff. (Already junior managers are paid up to £2,000 less than the staff they manage). The Treasury therefore needs to work out an approach to geographical pay that makes sense in the long term towards which future pay settlements can make progress.

Conclusion

We support the proposals in the Chancellor's minute. Particular support should be given to the proposals being developed with the IPCS for a new pay structure and long term pay agreement. This should be extended to other groups of staff in the Civil Service as soon as practicable. We reluctantly accept the continuation of the performance bonus scheme for a third year but this must be in conjunction with a proper performance-related pay system for these grades from 1 April 1988. Similarly, we accept the proposals on geographical pay but note that these are not sustainable in the long term. Treasury officials need to consider the long term aim well in advance of next year's pay round.

Peter Stredder

PETER STREDDER

CONFIDENTIAL

P 02506

PRIME MINISTER

Civil Service Pay Negotiations
(Minute of 12 February from the Chancellor of the Exchequer)

DECISIONS

1. The purpose of the meeting is to review the strategy for the 1987 non-industrial Civil Service pay negotiations. Decisions are required:

i. To confirm the target of an overall settlement not much greater than the rate of inflation;

ii. To note that the Chancellor anticipates separate negotiations with each union, and that separate settlements may therefore be arrived at with each;

iii. To agree to negotiations with the IPCS on a radical new pay structure;

iv. To agree to the introduction of a geographical pay scheme for certain areas and certain grades;

v. To agree that the performance bonus scheme for grades 3-7 should continue until March 1988.

BACKGROUND

2. In December, the Chancellor of the Exchequer set as his objective a very modest increase in Civil Service pay. This was unlikely to be below the rate of inflation, but ought not to go much above it. The Group agreed that within whatever money was available, it would be desirable to use as much as possible for management initiatives to tackle problems in recruiting and

retaining staff in particular geographical areas (especially London and the South East) or with particular skills. (MISC 66(86) 2nd Meeting.)

THE ISSUES

The Government's Objectives

3. It has become increasingly clear that the existing Civil Service pay structure is not flexible enough to meet management's needs. Since 1980, Civil Service pay increases have fallen significantly behind those in the economy generally. In many areas, this has not mattered: Departments have still been able to recruit sufficient staff of adequate quality to get the work done. But increasingly Departments have begun to face particular localised problems: either recruiting in certain areas (particularly the South East), particular skills (eg lawyers, accountants), or in retaining the best people (eg fast stream administrators). Dealing with this by a general increase in Civil Service pay would be very expensive. The Treasury have therefore been working on proposals for a more flexible pay system which takes more account of the local labour market (ie geographical variation), the labour market for particular skills, and individual merit.

4. The Group recognised that it might take three or four years to make significant progress towards greater flexibility. This is because, first, after allowing for even a modest across the board increase, the amounts likely to be available for new schemes are small; and, second, greater flexibility will require departments to take on functions previously exercised centrally by the Treasury and it will take time for the necessary expertise to build up.

Negotiating Prospects for 1987

5. In accordance with the last MISC 66 discussion, the Treasury

are acting on the instruction to look for a setlement in 1987-88 with an overall cost not much more than the RPI increase. Since cumulative settlements for the Civil Service since 1982 have been below the rate of inflation, in contrast to over three quarters of employees in the private sector, the Treasury's task will obviously be a tough one.

6. On top of that will be the cost of any management initiatives proposed for this year. The Treasury note suggests a new deal with the IPCS (Annexes B and C) and an element of geographical variation (Annex E). These proposals are described in greater detail below. But any significant advance will not be cheap to secure. The proposals for a geographical approach may appear modest - amounting to no more than a supplement of £400 for clerical and secretarial staff but nothing for higher grades - but will add more than 0.5 per cent to the national pay bill. The Group will therefore have to consider by how much they are prepared to see the aggregate cost exceed the RPI in return for demonstrable management gains.

A New Deal with the IPCS

7. Treasury officials have been holding confidential and without commitment discussions with the leaders of the IPCS, and believe that a settlement on the lines suggested in Annexes B and C of their note is on the cards. The key feature is a new pay structure. This is described in Annex C; but in brief the current system under which all staff at, say, grade 7, are on the same pay scale irrespective of discipline would be replaced by a system under which the pay ranges for particular specialisms within grade 7 could diverge within defined limits according to the market rates for those skills. What amount to discretionary increments are also proposed at the top of the scale to reward merit. These proposals have the strong backing of the main departments which employ scientific and professional staff - principly MOD and PSA.

Principal

8. An important component of the proposed agreement with the IPCS is the incorporation of the Long Term Pay arrangement offered to the unions in 1985. Under this, the aggregate increase in the pay bill would be constrained to be within the upper and lower quartiles of movement in the private sector. While this would be a helpful precedent towards achieving a formal framework for the civil service generally, there is a slight risk that other unions will gain indirectly the benefits without having to constrain their own negotiating positions.

9. The Treasury paper says that the proposed deal with the IPCS would cost £12-13 million more than keeping up with inflation - a real increase of about 1.5 per cent. The Treasury claim that this excess could be kept confidential, although they accept that other unions will try to calculate it. You might ask if it is realistic to suppose that this figure would not come out and whether, if it did, it would create an embarrassing precedent for other Civil Service and public sector negotiations.

10. Treasury also envisage that after piloting the new pay structure with IPCS grades, it might eventually be introduced across the whole Civil Service. This would represent a fundamental shift away from the concept of unified grading. Grades would continue for career management purposes, but there would be a large number of specialisms within each grade, each receiving a particular salary. While this will have advantages when recruiting specialists in short supply, it will obviously transform career management. Treasury and departmental personnel divisions will thus have to acquire new expertise in monitoring the labour market, so that rates can be kept competitive. Horizontal differentials will be introduced, and vertical differentials altered, so that some flexibility in moving staff within Departments may be lost. Ultimately, there could be pay differentials, and therefore an element of competition between Departments. The Treasury paper does not consider any of these wider implications; nor does it give much detail about how the new scheme will operate in practice. The Group may therefore want to explore some of these issues in discussion with the Chancellor and the Minister of State, Privy Council Office.

Research Councils

11. Despite the attractions to MOD and PSA, this proposal could cause considerable difficulty for the Research Councils. A majority of their staff are IPCS members, who enjoy a long-standing link with Civil Service pay rates which Treasury officials believe amounts to a legal entitlement. It is therefore inevitable that they will have to adopt the same approach as is adopted for the Civil Service generally. The Treasury estimate that the IPCS deal will cost about 1.5 per cent above the RPI - say 5.5-6 per cent. This compares with the average increase allowed for running cost of Departments of some 6 per cent (although some of that increase is to compensate for previous under estimates of earlier pay rises). The provision for the Research Councils for 1988/89, however, has increased only by about the GDP deflator - 3.75 per cent. Since some 70 per cent of their expenditure is on pay, to implement the IPCS agreement would result in a 2 per cent squeeze. The Treasury argue that this problem should not stand in the way of a generally desirable development for the Civil Service as a whole (and indeed the Chancellor does not refer to it), but it will cause acute difficulty for the Education Secretary. There may need to be some further discussion between him and the Chief Secretary, Treasury to see if a way can be found to meet this point. Ultimately it might be necessary for some of the Departments most keen to implement the new structure to help the Research Councils meet the cost.

Merit Pay

12. Paragraph 5b of the Treasury note reviews the current position on merit pay. Progress is being made gradually. The only specific issue for decision is the future of the performance bonus scheme for grades 3-7. This experiment has not been a success. The Treasury and MPO have concluded, however, that the experiment should be allowed to continue until the original end date of March 1988 - their reasons are set out in paragraph 5 of Annex D - while a better scheme is prepared.

MP's Pay

13. Annex D to the Treasury paper points out that under a Resolution of the House MPs' pay is linked to the maximum of the salary scale for Grade 6. It says that the initial advice is that, if discretionary increments for Grade 6 were introduced, the link would have to be to the highest of these. That is indeed given as an argument against introducing discretionary pay for Grades 3-7 in 1987. But the paper also proposes an announcement in March that the Government intend to introduce it in 1988. If the link with MPs' pay is spotted, there could be awkward questions. You might ask the Chancellor to consider how this aspect should be dealt with, and perhaps circulate proposals to colleagues.

Geographical Pay

14. The Treasury and the major employing Departments have developed proposals for introducing a greater degree of geographical pay variation. Evidence shows that there is great difficulty in recruiting and retaining staff - particularly clerical and secretarial - in London and the South East, and in particular in towns such as Reading where private sector employers pay considerably more for comparable work.

15. The Treasury therefore propose that in addition to the existing London weighting payments, there should be an additional supplement payable to secretarial and clerical staff in London and the surrounding towns. Since there is no general recruitment and retention problems for higher grades, the Treasury see no case for paying supplements above EO level; to do so would increase the cost considerably. Departments would have discretion on which groups of staff in which offices should receive the new geographical addition, subject to a centrally prescribed maximum, to consultation with other Civil Service employers in the area in order to prevent leap frogging, and to the availability of resources within running cost limits.

16. For other grades in short supply and for areas outside the South East "Local Pay Additions" would be payable, again at Departments' discretion but subject to central criteria.

17. The Chancellor has promised publicly that the 1987 pay settlement will include a substantial element of geographical variation. The Treasury proposal represents a start, but can hardly be represented as a major step. Even so, depending how Departments use their discretion, it could cost up to 0.5 per cent of the national pay bill. Something more generous could only be afforded if either it was realistic to secure real terms pay cuts for staff working outside the South East, or to the extent that the aggregate increase in the Pay Bill is significantly higher than the rate of inflation. It is probably more realistic to seek to freeze the national pay scales in real terms, and use a small margin above the RPI each year to widen regional differentials.

HANDLING

18. You will wish to invite the Chancellor of the Exchequer to introduce the discussion. The Minsters in charge of the major employing departments will wish to comment on the recruitment and retention arguments, and on the desirability of the deal proposed for IPSC staff. The Secretary of State for Education and Science will wish to comment on the particular problems of the Resrarch Councils. The Minister of State, Privy Council Office will wish to contribute generally and on the performance bonus scheme. The Secretaries of State for Employment and for the Environment will wish to speak on the geographical approach. Mr Kemp (Deputy Secretary, Treasury, who will conduct the negotiations) will also be present.

J B UNWIN

13 February 1987
Cabinet Office

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CONFIDENTIAL

CC BJ
CC Blup

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

PRIME MINISTER

CIVIL SERVICE PAY 1987

... I attach a note by the Treasury, prepared after discussion with interested Departments, on the current state of play on Civil Service pay negotiations. It seeks to pull together all of the various initiatives which are currently alive, and makes proposals for the next steps.

I am content with these proposals, and if you and our other colleagues agree I will ask my officials to proceed accordingly, consulting Departments as appropriate and reporting to us as and when necessary.

As you will see from the note, the situation is a lively one. On the one hand ideas of a potentially radical and far-reaching nature are being developed - for instance in the context of geography, merit and indeed the whole pay structure. There are opportunities here for putting into practice the ideas which I advanced at NEDC last November and about which Kenneth Clarke spoke yesterday. On the other hand we need continually to keep an eye on the costs involved, given our policy of containing Civil Service running costs; and the schemes themselves need to be examined most carefully because of their possible ramifications.

The sort of developments now under discussion can have two sorts of costs.

- First, while in the long-run they will make it easier to hold down the pay bill by relieving the critical pressure points, in the short-run there

will be initial costs - for example, extra money for London Weighting or for assimilation to the new pay spine.

- Secondly, insofar as the proposals involve or lead to greater delegation to Departments, this can have a cost if Departmental managers are not required to operate the new freedom responsibly, or if the devolved budgets against which they work are insufficiently robust.

This is no doubt directed towards Sir Robin Ibbs. DAV

It is of very great importance that we understand the need to move only when the money can be accommodated within the pay settlement of the year, and we have got suitable practices and systems in place.

So far as 1987-88 goes the note records our decision of December that we should aim for a settlement whose overall cost is not much more than the rate of inflation. I propose that we maintain that position.

I am copying this to the other members of MISC 66, and to the Secretaries of State for the Home Department, the Environment and Education and Science, and also to Sir Robert Armstrong.

N.L.

N.L.
12 February 1987

CONFIDENTIAL

CIVIL SERVICE PAY 1987

Note by the Treasury

At the meeting on 4 December 1986 MISC 66 agreed that the aim for 1987 should be a settlement whose overall cost is not much more than the rate of inflation. Additionally emphasis was put on the need to make a start on geographical pay, with particular reference to London and the South East of England. More generally, and dating further back, MISC 66 has emphasised the need to develop the Civil Service pay system more flexibly so as better to respond to market and other needs and to get better value for money. This note, prepared after discussion in MISC 67, makes proposals for the way forward now.

Prospects for 1987 seen currently

2. The current prospects for a peaceful and worthwhile settlement at a relatively low cost are difficult to assess. Informal contacts with some unions suggest that whatever their public aspirations, which (as the unions themselves recognise) are generally wholly unrealistic, and notwithstanding the rather higher rates of settlement seen elsewhere and the fairly moderate settlements in the Civil Service in previous years, something around the RPI, plus something in return for managerial and other flexibilities, is about the best they expect without a bruising argument. But the public rhetoric is fierce, and the recent overturning by the militants in the IRSF Conference of their Executive, leading to a possible IRSF, CPSA, Society and CSU consortium, is ominous. So is the mood of staff in a number of areas.

3. Within that outline the position of the separate unions is as shown in **Annex A** attached. It looks as though it might be possible to get the IPCS home very quickly now at RPI plus a move to a new pay system

(see below), plus something additional for some, especially Scientists, as discussed in **Annex B**. We are hopeful that the smaller CSU would come home again for something around RPI plus relatively inexpensive concessions in such matters as footwear and uniform for messengers (points to which the CSU attach a great deal of importance). The key to an overall peaceful settlement is however as ever the volatile CPSA, where we are still hopeful for something modest in percentage terms (albeit expressed as a flat rate of pounds per week), helped by the benefits of the big CO/DP restructuring of last year which is still working its way through. Other unions are of lesser importance, although one or two could still give trouble (eg the IRSF in respect of tax assessment and collection). Much depends on whether "the consortium" can be made to stand up and make itself effective.

Developments in the pay structure

4. Currently the Civil Service pay structure is highly stylized, with standard scales and pay rates for standard grades within which large groups of people are brigaded with little or no discrimination according to particular skill, merit or geography. We are agreed about the importance of breaking into this: the Paymaster General stressed it in relation to the economy at large in his speech last week. So far as the Civil Service is concerned various starts have been made over the past two or three years - eg the performance bonus scheme of 1984 and the introduction of special pay additions in 1985. But these are expedients, and are not permanent solutions to a long-term need for a more flexibly tuned structure. We have accordingly developed the possibility of a new structure, built around the common pay spine with spans and scales capable of being more closely attuned to personal needs, on the lines set out at **Annex C** attached. Initially it is expected that this would apply to IPCS grades only, as part of the immediate deal we hope it may be possible to enter into with them and referred to in paragraph 3 above. But conceptually, and subject to cost, managerial and industrial relations constraints and the development of the system as necessary, it could apply more widely within the Civil Service.

5. There are some particular areas in which the Civil Service pay system must develop which would be assisted by the gradual introduction of a system of this nature. Thus :-

a. **Skills and marketability.** At present the Civil Service pay system brigades together in very broad bands the skills whose market value and scarcity vary very greatly. The proposed system would enable these to be more finely differentiated so as to offer better starting pay and better ultimate prospects to the skills in short supply and less good pay and prospects to those which are plentiful. At the moment we meet these needs very imperfectly through the "special pay addition" system.

b. **Merit.** At present apart from the experimental performance bonus scheme and the discretionary pay for Grades 2 and 3 now out to consultation there is no way in which a better person is distinguished from a less good person in the Civil Service pay system. The new system would make it possible to distinguish the merit of people who are still on their scales - that is, who have not reached their "normally attainable maximum" - by withholding increments or "hopping" increments where appropriate; and would also make it possible to give the exceptionally good performer discretionary range points above their normally attainable maximum. Such a system would in concept look very like what is now proposed for Grades 2 and 3, on which we are effectively building. The note at **Annex D** discusses thinking on the present performance bonus scheme, which although useful in paving the way to a discretionary approach does not seem to be the best long-term approach; nevertheless we should retain it for 1987-88 and thus complete the planned experiment.

c. **Devolution to Departments.** The proposed system would make devolution to Departments easier, subject to the development of appropriate controls and constraints and appropriate robust local budgeting so as to avoid "drift" and degradation of the system. Departments or units of Departments would be allowed, subject to appropriate controls, to move their people to different parts of the pay spine - upwards or downwards - as the local market or local managerial needs might demand. This

in turn - as a longer shot - could facilitate increased "departmentalisation", below a certain level; so that the functions in individual Departments can be better tailored vertically to the operational and managerial needs of that Department without the current constraints, as they often are, of the horizontal Civil Service pay and grading etc structure.

d. **A long-term system.** The new system involves accepting the essentials of the long-term pay arrangements (LTPA) based broadly on Megaw, which MISC 66 in November 1985 agreed should be offered to the Civil Service unions. So far only one union - the IPCS - want to take it up, and it is an integral part of joining the new system that they should do so. There is however a danger in giving LTPA to one but not all of the unions, of giving those who have not signed up on the accompanying disciplines an uncovenanted benefit, but we believe that can be surmounted. The important points are (i) that the constraints bite on the overall pay bill and does not preclude pay flexibility as between groups or individuals within the total, and (ii) that the Government retains an override in case of need. This is something that will need to be watched at each stage.

6. We would not want to press this system on unwilling unions. But if we enter into such an agreement with the IPCS it would be impossible to keep it dark. It is proposed, therefore, if and when we enter into such an agreement, to make the possible new arrangements public and, as it were, on offer to the other unions, though without commitment and without prejudice.

Geography

7. The note at **Annex E** discusses our present thinking. In short, the idea is that there should be more for London and the South East, and selectively more in other localities, paid for by a lower overall settlement - all aimed at gradually, and over time, distinguishing between different areas in the country. As MISC 66 recognised this is going to be a slow process. The new pay system would help here, in that for

similar skills it would be possible to use different parts of the spine for different parts of the country. But for "pure" geography it would probably still be necessary to retain the London Weighting system, and special pay additions (probably renamed "local pay additions") for the finer tuning. We are also looking at improved removal and transfer conditions more directly related to house price differentials. In the longer run all this should save money. But in the short run there could be additional cost - for 1987-88 up to say ½ per cent on the whole pay bill.

Cost

8. Our present instructions are to look for a settlement in 1987-88 with an overall cost not much more than RPI. This should be capable of accommodation in Departmental running cost limits set. It is too early to say whether we can achieve this, account being taken of the likely levels at which we might settle with individual unions and of what we might want to do on geography. There is also the effect of the very recent British Telecom settlement. For the time being however we are not looking for any new instructions. 12.66% over two years.

Timing

9. There is a lot to be said for pressing home fast this year. To start with, this is desirable in itself - staff should not have to wait for their increases. Second, the RPI is moving against us over the negotiating period, albeit gently and temporarily. Third, developments elsewhere in the pay scene, especially the likely Review Body recommendations, may also be unhelpful. Finally, in various ways the unions are off balance at the moment and should not be given time to recover. All this points to seizing what initiatives we can, and pressing fast. At the same time, in looking for a strategy which seeks to settle early and cheaply with one or two unions (eg the IPCS and the CSU) it will be important not to give more to late settlers; this is one of the chief fears which potential early settlers have.

The way forward

10. In the light of this we propose that :-

a. We should seek a quick deal with the IPCS at RPI plus staged additions, particularly for Scientists and Professional and Technology people, in return for agreement to the new pay arrangements (paragraph 3 and Annex B).

(Annex B says "probably around 4 per cent.")

b. Separate efforts should be made to bring in separate unions at RPI plus a touch (paragraph 3) with a view to early settlement (paragraph 6), though noting that it will be important not to settle any higher with later people (paragraph 9).

c. The possible new arrangements should be made public without commitment and without pressure (paragraph 8 and Annex C).

d. The performance bonus scheme should continue until the end of the present experiment and thereafter replaced with something akin to the scheme at Grades 2 and 3 now under discussion and/or something based on the new system discussed at Annex C (Annex D).

e. Geographical pay should be developed on the lines set out in paragraph 5 and Annex E.

11. MISC 66 are invited to agree to this way forward. Further reports will be made as necessary.

H M Treasury
February 1987

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Annex A

THE POSITION OF THE UNIONS

This note summarises the likely claims as now seen.

CPSA (total number involved: 210,000)

£20 pw, with any further increases necessary to bring in a minimum wage at £115 pw, plus, the abolition of scales and a reduction in the working week of 2 hours (1 hour in London) and an increase in leave for all to 6 weeks a year. In total the claim is worth well over 20 per cent even without the hours and leave.

SCPS (111,000)

£15 pw or 15 per cent but keen to co-ordinate approach with other unions and in particular with the CPSA. Claim as it stands worth about 16 per cent.

IPCS (70,000)

Near settlement - see Annex B.

IRSF (40,000)

Instructed by conference to frame a joint claim with CPSA and SCPS, with big percentage figure (eg up to 24 per cent) mentioned.

CSU (27,000)

No current indication of a formal claim, but likely to be torn between an early settlement at a figure slightly above RPI and joining any developing consortium.

FDA/AIT (10,000)

For an unspecified but substantial increase with particular measures aimed at lawyers, accountants and fully trained tax inspectors.

POA/SPOA (22,000)

Fully occupied with the 'Fresh Start' negotiations, but likely to pick up "Wynn Parry" formula consequentials in due course.

Annex B

CIVIL SERVICE PAY 1987 - POSSIBLE DEAL WITH THE IPCS

The possible deal with the IPCS would apply only to grades where they have sole national negotiating rights, and thus would exclude (amongst others) Grade 7 and above, save as regards paragraph 3 below. The deal is not yet firm at the time of writing and even if it can be brought home the details may change, but as it stands now the essentials are :

a. Core increase from 1 April 1987 at RPI as of February 1987 - probably around 4 per cent.

b. Signing up on the new pay apparatus (see **Annex C**) with assimilation to the new scale points as from 1 September 1987.

c. Moving the settlement date to 1 August or later from next year, with an RPI increase in April 1988.

d. Acceptance of the long-term pay determination arrangements proposed in November 1985.

2. In addition

a. For Professional and Technology (P&T) grades, bringing forward to September 1987 and August 1988, increases contracted for in November 1985 but then agreed to be staged over the period up to 1 January 1989.

b. For Science grades two increases over and above the cost of assimilation, as from September 1987 and August 1988.

c. For most other IPCS national grades, as for Science grades but with the August 1988 increase only.

3. As a separate deal bringing forward of the assimilation to unified Grade 7 to October 1987 for PPTOs and in two steps to April 1988 for PSOs. Principal

4. The total cost of all these improvements, leaving aside the basic RPI linked increase would be around £12/£13 million in 1987-88 taken net of some substantial savings on overtime etc costs and of the abating of special pay additions now in payment. Of this figure, roughly half represents a bringing forward of increases already contracted for.

5. From 1988 onwards the IPCS settlement date will be postponed to 1 August or later. In the transition to the new settlement date the IPCS grades below Grade 7 would again receive an RPI increase on 1 April 1988, measured as of February 1988. The August 1988 pay award will be determined in the light of OME evidence on the inter-quartile range of pay settlements over the 12 months to May 1988, (the "movements survey") taking account both of the RPI increase already received and of any net benefit which IPCS grades have received as a result of selective movements on to higher pay scales within the spans whether following OME evidence on the state of the market elsewhere (the "levels survey") or otherwise. 1988-89 costs, leaving aside the basic RPI linked increase, are around £17 million over 1987-88, again taken net. This figure largely represents a bringing forward of increases already contracted for.

6. Relatively few Departments are involved with any substantial numbers of IPCS grades. There is undoubtedly a degree of "dead weight" in these proposals, as there must be in any pay settlement affecting large numbers of people across the board. But this is justified against the points:

(a) that among the P&T and Scientists there are substantial areas where there are certainly recruitment and retention

problems (and the date of September 1987 has been chosen to catch the 1987 graduate recruitment season) and that if these increases had not been given there would undoubtedly have been special pay additions given or other pay adjustments made instead;

(b) that there is benefit in getting the IPCS voluntarily to sign up to the new pay arrangements which will give potentiality for greater discrimination and flexibility for the future; including the potential breaking of the present pay link between Civil Service Scientists and Scientists in fringe bodies like the Research Councils; and

(c) otherwise the IPCS would not have agreed to a "core" increase as low as RPI.

7. It is important to balance this deal against the alternative. If there were no agreement the IPCS would submit claims for immediately implementing the P&T awards staged to 1 January 1988 and 1 January 1989 and for substantial increases for scientists. It would not be easy to find grounds for refusing arbitration, and at arbitration both claims would have a considerable chance of success: pay increases for some scientists and P&Ts are certainly justified on recruitment and retention grounds. While it is impossible to be certain, our judgment is that it is unlikely that the IPCS would receive less than we are offering now.

8. It would be a part of the deal with the IPCS that the costs, in cash and percentage terms, over and above the RPI element would be kept confidential. Such costs are in any case not easily calculated by outside people, although rough estimates will undoubtedly be made by the other unions in due course. The aim would be to make the "core" increases at RPI the headline figures.

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ANNEX C

A NEW PAY STRUCTURE

This note outlines the new system of pay which we hope to pilot with IPCS grades below Grade 7 in the coming year. We can assess its wider applicability in the light of that experience.

Aim

2. The aim of the scheme is to increase the flexibility of civil service pay to respond to differences of skills, merit or geography. It is generally recognised that the present ad hoc measures of flexibility - special pay additions and performance bonuses - are inadequate as the basis of a permanent pay system.

Why the IPCS?

3. The advantages of starting with the IPCS grades below Grade 7 are:

i. The IPCS are willing to try it;

ii. The numbers involved are manageable: although the IPCS has 70,000 members in total, most of the effort will be concentrated initially on about 40,000 staff;

iii. The majority of them work in only four Departments - MOD, PSA, DTI and MAFF. Those Departments are willing to try the scheme, because

iv. it offers a means of solving their pressing management problems in relation to the recruitment and retention of scientific and technical staff.

How will it work?

4. The foundation of the new system is a single row of pay points - the common pay spine. The spine we plan to use is shown in the table attached.

5. A "pay span" would be a section of the spine defined to encompass all the pay points available to be used at a particular grading level. There would be one span for each grading level (one for SEO equivalents, one for HEO equivalents etc).

6. Within each span there would be a variety of pay scales with different scale maxima. At present all scientists at a particular grade are on one scale and all engineers on another. Under the new system it will be possible to discriminate among each sort of specialists and put members of each group on higher or lower pay scales (within the boundaries set by the common span) to reflect the rates of pay which their skills properly command.

7. Staff will normally progress up the pay scale by annual increments to the scale maximum as they do at present, but there will be much more emphasis on the withholding or withdrawing of increments in cases of unsatisfactory performance and the award of double increments for outstanding performance ("hopping and stopping"). The scale maxima and minima for different groups will be adjusted by the Treasury from year to year to match the market for the skills in question.

Range Pay

8. Above the maximum of each of the pay scales there will be at least three range points which may be used, as with the scheme which is being introduced for grades 2 and 3, to reward exceptional performance. In principle, all the pay points between the scale maximum and the top of the pay span will be available for this purpose. But to maintain standards and ensure financial control there will be strict, centrally determined criteria governing the use of these range points. Range points, like normal increments, may be withdrawn under certain conditions.

Setting up the new system

9. The first step is the mechanical one of assimilating the pay of the staff concerned onto the new common pay spine. The staff will simply be assigned to the nearest pay point above their current salary as from 1 September 1987. (Special arrangements will be needed in certain cases to respect legal entitlements).

Selective migration

10. It will then be possible for Departments, by agreement with the Treasury, to transfer particular groups of staff from lower to higher scales within the same span to meet their recruitment, retention or other management needs. For large groups spread across a number of Departments this might follow a centrally conducted survey of the market. For smaller groups Departments could propose a change which would be judged against tight criteria in respect of the reason for the change, the overall cost, the increases for individual members of staff, and the possible knock-on effects elsewhere.

11. Downward migration will also be possible: it will be possible to reduce the scale maxima for particular groups, though not (for legal reasons) for people already within the group.

Devolution and financial control

12. The cost of upward migration will need to be controlled by the Treasury and budgeted for as part of the planned paybill for the year in question. If (and only if) sufficiently robust local bugeting could be developed it might be possible in due course to delegate responsibility for the control of some of these movements to Departments, and then downwards within Departments.

Career management and grading arrangements

13. Scientists will continue to be managed as scientists, and engineers as engineers, despite the fact that differentiation

is being introduced in their rates of pay. Existing grading standards will be maintained in relation to the staff in each pay span.

Pay determination in future years

14. It is proposed that a long term pay agreement on Megaw lines should be concluded with the IPCS. This would comprise centrally conducted movements and levels surveys, constraints upwards and downwards on total paybill increases during the year, arbitration by agreement, and Government override. In whatever way the planned increase in the paybill is determined decisions will need to be taken about how much, if any, of it should be use to revalorise the spine; how much to adjust the positions of certain scales within the spans; and how much should be budgeted for net upward migration from lower to higher scales. This is in line with what Ministers decided in MISC 66 in November 1985 and does not impair pay flexibility: the constraint is upon the overall paybill increase and explicitly allows individuals to get more or less within the total.

Spine		Incremental Increase	Incremental Increase	Spine		Incremental Increase	Incremental Increase
Point	Salary	£	%	Point	Salary	£	%
1	3,146			20	10,223	450	4.6
2	3,366	220	7.0	21	10,673	450	4.4
3	3,602	236	7.0	22	11,123	450	4.2
4	3,854	252	7.0	23	11,573	450	4.0
5	4,124	270	7.0	24	12,036	463	4.0
6	4,413	289	7.0	25	12,517	481	4.0
7	4,722	309	7.0	26	13,018	501	4.0
8	5,053	331	7.0	27	13,538	520	4.0
9	5,407	354	7.0	28	14,080	542	4.0
10	5,785	378	7.0	29	14,643	563	4.0
11	6,190	405	7.0	30	15,229	586	4.0
12	6,623	433	7.0	31	15,838	609	4.0
13	7,073	450	6.8	32	16,472	634	4.0
14	7,523	450	6.4	33	17,131	659	4.0
15	7,973	450	6.0	34	17,819	688	4.0
16	8,423	450	5.6	35	18,529	710	4.0
17	8,873	450	5.3	36	19,270	741	4.0
18	9,323	450	5.1	37	20,041	771	4.0
19	9,773	450	4.8				

Annex D

PERFORMANCE BONUS EXPERIMENT

The performance bonus scheme is a three-year experiment which is due to end in March 1988. Decisions will be needed in due course about what arrangements for performance pay should be put in its place for Grades 4 to 7.

2. Although it has been very useful in starting the cultural change to a greater link between pay and performance and helpful in concentrating the minds of line and central managers on important issues, it is clear that we shall not wish to continue performance bonuses after March 1988 in their present form. The report by Hay-MSL on the first year of the experiment, which has been circulated to departments, has demonstrated that the concept is flawed. Some of the failings revealed by their report can be attributed to failings of management rather than of the scheme itself; for instance the lack of communication to staff of the reasons for the award or non-award of bonuses. But some of the failings are inherent in the scheme; for instance the difficulty in defining criteria and the degree to which mechanical constraints have undermined the basic rationale, which is to encourage good performance. More generally, there must be some doubt whether bonuses are the most effective means of encouraging high performance at these levels.

3. There are three options:

i. to end the experiment after the second round, one year early in March 1987;

ii. to continue the experiment, with any appropriate changes to extract maximum value from it, for its full three years until March 1988;

iii. to end the experiment in March 1987 and replace it immediately with a discretionary ("range") pay scheme

for Grades 4 to 7 on the same lines as the scheme now under discussion for Grades 2 and 3.

4. Ending the scheme one year early (option (i)) would have the merit of saving £4 million next year (making this sum available for other running cost purposes), which could be justified in view of the doubt about the degree to which the experiment is giving value for money. But there are strong arguments against this. First, we understand that each member of staff now covered by the experiment has a contractual right to be considered for a performance award, or something very much on those lines, for the full planned duration of the scheme. More generally, terminating the experiment, without putting anything in its place, would be misinterpreted as an indication that performance pay does not work in the Civil Service and as such would make it more difficult to develop a policy in this important area. It would look very odd to be promoting performance related pay for Grades 2 to 3 and at the same time withdrawing it down the line. Ideally we should be going for option (iii) - end the experimental bonus scheme, replacing it with a better scheme. This could be done so as not to cost much more than the present performance bonus scheme and in a way which would fulfil any legal obligations.

5. However, there are real difficulties which lead us to conclude that this would not be feasible. First, a discretionary ("range") pay scheme of the kind being introduced for Grades 2 and 3 will impose a considerable extra burden on departmental personnel units and line managers. To introduce it for Grades 2 and 3 in this financial year is feasible where only 600 staff are covered, but there are more than 20,000 staff in Grades 4-7 and it would be impossible to deal with such a large group in the time, particularly when there are so many other developments in the pay and personnel management areas. Secondly, there is a strong feeling that we should get the scheme for Grades 2 and 3 underway satisfactorily and learn any early lessons before we go down to the much larger numbers involved at Grades 4-7. Thirdly, there is the point of presentation in that it might be seen by some as a victory for the Trade Union Side in abandoning early the experiment which they have opposed with such vigour. Finally, there is the very awkward link between

the pay of MPs and Grade 6. Under the Resolution of the House the pay of MPs will in the future be linked to the maximum of the salary scale for Grade 6. Initial advice suggests that as the Resolution is presently drafted there would be a risk that if we were to introduce discretionary increments for Grade 6 the link would have to be to the highest of those: the pay of MPs would thus be several thousand pounds higher.

Conclusion

6. We conclude therefore that the performance bonus experiment should be continued in 1987-88, subject to any modification which may be agreed as useful in order to get the best out of it. But, at the time of the announcement of the final scheme for Grades 2 and 3 in March, there should be a statement of intent to introduce similar arrangements for discretionary pay for Grades 4-7 when the experimental performance bonus scheme comes to its end in March 1988.

3037/41

CONFIDENTIAL

Annex E

NON-INDUSTRIAL CIVIL SERVICE PAY: A GEOGRAPHICAL APPROACH

1. Questions about the possibility of introducing more variation in pay have been considered by a Treasury-chaired Working Party. Despite some differences in emphasis, the Working Party has reached broad agreement on the nature of the problem and has identified a way forward in the short-term. However, much work remains to be done on the detailed mechanisms and controls.

2. The Working Party has confined itself to the managerial aspects of the issue taking as its touchstone recruitment and retention (and what can be afforded) and has confined its work to the Civil Service rather than the broader economic issues. The evidence shows that there is a geographical imbalance in the ease with which the civil service can recruit and retain staff of adequate calibre. Most vacancies can be filled, but in some places only with staff who are of a barely acceptable calibre, and after considerable time and effort. The same places tend to have relatively high resignation rates. There is no doubt that very high rates of turnover, and inexperienced and low-calibre staff, lead to costs and inefficiency. On the other hand, there are areas where there are few resignations and embarrassingly large numbers of well-qualified applicants for the vacancies which do arise.

3. The problem areas are mainly in London and parts of the South East, but there are localised pockets elsewhere. Some towns in the South East, such as Reading, face difficulties as severe as in the worst parts of London; but other parts of South East have fewer problems than in pockets elsewhere in the country. Even within an area, there are variations between departments and, indeed, between particular offices. However, the problem in London and parts of the South East is a consistent theme. In part, this may be related to high house prices and also to relatively low unemployment and high earnings in comparable employment.

4. The reasons for the problems are a complex mix. Pay rates are not the whole story. Thus:

(i) There is a need to improve the financial package when civil servants move. (Work on this linking transfer terms more directly to house price is well in train.)

(ii) There may be scope for improving recruitment procedures.

(iii) Particularly high resignation rates in individual offices can sometimes be met by taking specific remedial action unrelated to pay.

But the working group is agreed that the recruitment and retention issues establish the case for paying relatively more to civil servants in the problem areas (which are often highly localised) within the overall financial contraints of running costs and what is available to be spent on pay.

5. In the short term, the Working Party consider that the evidence points to two moves on the pay front. First, more needs to be spent in London and parts of the South East. Apart from the existing London pay zones, the area needing extra seems to be an amoeba around London, including places like Reading and Guildford, but not the whole region. Second, the localised problems elsewhere need to be tackled. The machine proposed is two legged. First, in London and the South East, London Weighting would be retained on the present basis in the three existing zones. Staff in the grades causing most difficulty, generally non-mobile grades, would selectively qualify for the payment of a London Pay Supplement. That Supplement would also be available, again selectively, to staff in the same grades in the fourth amoeba area which would be created around the present Outer London Zone. Second, in other parts of the country, use would be made of the SPA concept with staff in the difficult grades being eligible for a Local Pay Addition (LPA).

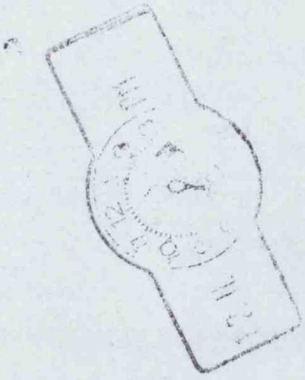
6. In the South East, the new area would be defined centrally, covering the worst problem towns; departments would be able to pay up to a certain

sum to those of their employees in difficult grades in this area, and the three other London zones. Similarly, departments would be able to pay LPAs in other areas of difficulties subject to centrally established criteria. In both cases, of course, the cost would have to come from existing running cost limits. What these costs would be would depend on the detail of the scheme and the use departments made of it. If for example, £400 per annum was paid to all clerical and secretarial staff in these areas the cost would be over £20 million per year - more than 1½% of the pay bill. We would however expect there to be a much more selective approach with departments using their discretion to pay less than the maximum amount and to confine the payment to those locations in London and South East which were causing the greatest difficulties.

7. These changes could be made in the 1987 pay round though not necessarily from 1 April. The maximum amount available for the South East, and for LPAs, will however depend on the level of the general settlement; although even a relatively small sum per head in the South East could help with the most acute problem areas.

8. Moves on these two fronts have a great advantage from the industrial relations point of view. The Unions are aware that we are looking at the concept of geographical variations in pay rates and while formally opposed to the principle are resigned to its coming and of course they, and their members, accept London Weighting, and are coming to terms with the idea of SPAs. Approaching geographical pay by building on existing features of the machinery should help in gaining acceptance.

9. These proposals involve paying more in some areas than in others within the overall increase in the pay bill. In theory, it might be possible to pay less in other areas but any attempt to reduce salaries in real terms would be illegal and certainly cause industrial action. The way forward is therefore to aim for as low an overall settlement as possible in the years ahead which would leave room for selective increases in the problem areas; over time this would progressively correct the balance.



SK/A57

CONFIDENTIAL

LCCBG

Department of Employment
Caxton House Tothill Street London SW1H 9NF
5949
Telephone Direct Line 01-213.....
Switchboard 01-213 3000

Prime Minister 2.

Richard Luce Esq MP
Minister of State
Privy Council Office
68 Whitehall
LONDON
SW1

11 February 1987

Dear Minister, fcap. Good result. MT

I wrote to you on 16 January telling you of our intention to proceed with a writ against the CPSA because of the industrial action they had been promoting against the ethnic monitoring of unemployed claimants in a pilot sample of Unemployment Benefit Offices.

The writ was issued on 19 January and the CPSA very promptly stood-down their opposition. We achieved the outcome we wanted and I am ending the legal processes there. We have shown our willingness to apply our own industrial legislation to one of our own trouble spots and it has had the desired outcome.

I am copying this letter to the Prime Minister, David and Peter Brooke and to Sir Robert Armstrong. In view of the action DHSS are considering against the CPSA over the Social Security Review, I am also copying to Norman Fowler.

Yours sincerely

Kenneth Clarke

pp. KENNETH CLARKE
(approved by the Paymaster General and signed in his absence by his Private Secretary)

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CIVIL SERVICE: Pay + Pensions Pt 16

CONFIDENTIAL

C(87)G

16pm

MINISTER OF STATE TREASURY

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Kenneth Clarke QC MP
Paymaster General
Department of Employment
Caxton House
Tothill Street
LONDON SW1H 0ET

21 January 1987

Dear Ken,

UNEMPLOYMENT BENEFIT OFFICES - ETHNIC MONITORING

You wrote to Richard Luce on 16 January about strike action in certain Unemployment Benefit Offices over pilot exercises to monitor the ethnic origins of unemployed claimants. I am responding since policy on Civil Service industrial relations is a Treasury responsibility.

My officials, who have been in close touch with yours, have kept me informed of these developments. I support your line and agree with your view that the Government should be seen to be taking action against its own employees in line with the policies enshrined in its own industrial relations legislation. It is also important, I believe, for the Government to make clear that it considers unacceptable politically motivated industrial action by its employees which is not directly about their own terms and conditions of employment, and is willing to take action against it. Whether this case goes to a full hearing will no doubt depend on developments and any further appraisal of the legal technicalities, and I am asking my officials to keep in touch with yours. Whatever the next steps, however, I believe that this action will have delivered a clear and timely message to the unions.

I am sending copies of this letter to the Prime Minister, David Young, Richard Luce and to Sir Robert Armstrong.

Yours ever

Peter

PETER BROOKE

CIVIL SERVICE & Pay + Pensions pt 16

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file

EL3BRA

bc B5

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

SIR ROBERT ARMSTRONG

DISCRETIONARY PAY AT GRADES 2 AND 3

The Prime Minister was grateful for your minute of 16 January and for the Chancellor's minute of 9 January which responded to her comments about the proposed scheme for discretionary pay at Grades 2 and 3.

The Prime Minister was glad that the main obstacles to rapid progress through discretionary increments are removed in the revised scheme and she accepts that it is important to avoid anything which might make it more difficult to extend performance pay to lower grades. In the light of this, she is now content that the consultation document should be issued, along the lines of the draft attached to your minute. However she has commented that the consultation document does not make the scheme sound at all attractive, indeed very far from it, and she has asked that the draft should be revised in order to improve the presentation of the scheme.

I am copying this minute to Mr. Allan (H.M. Treasury) and Mr. Stark (Minister of State's Office, Privy Council Office).

DAVID NORGROVE

19 January 1987

DTS.

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PRIME MINISTER

DISCRETIONARY PAY AT GRADES 2 & 3

You commented on the earlier proposals for discretionary pay at grades 2 and 3 that it would be worth considering whether to make the discretionary pay element a more significant part of total pay (i.e. more generous) and also whether people should be allowed to progress more quickly through the increments.

The Chancellor of the Exchequer and Sir Robert Armstrong have now replied to you on these points. They both agree that people should be allowed to progress more quickly. But they are against, at this stage, allowing more money for the scheme. To do so would make it more difficult to extend discretionary pay to lower grades, where of course the number of people involved and the cost would be much greater. They also fear that to change the proposals now would tend to drag out the discussions. They want to put the scheme in place as soon as possible.

One of your two suggestions has been conceded and the objections to the other have some force. I recommend that you should now agree to the proposals, as also do Brian Griffiths and the Policy Unit.

Content?

Yes - but the notice doesn't make it sound very attractive. Fair from it.

DRN

David Norgrove

16 January 1987

CC/BG

PPS

Ref. A087/134

PRIME MINISTER

Discretionary Pay at Grades 2 and 3

The Chancellor of the Exchequer sent you a minute on 9 January, replying to your comment that the proposed scheme for discretionary pay at Grades 2 and 3 submitted with my minute of 16 December (A086/3484) is insufficiently generous.

2. It is clearly essential that the scheme should be sufficiently generous and flexible to achieve its purpose in management terms. But, like the Chancellor, I attach importance to avoiding anything which might make it more difficult to extend performance pay to lower grades; and it is also important to establish and maintain high standards in the award of increments.

3. The text which I submitted to you on 16 December would certainly be improved by being simplified as the Chancellor suggests. I attach a revised version, agreed with the Treasury, which removes the main obstacles to rapid progress through the discretionary increments to able individuals and reflects the Chancellor's suggestion of a more generalised reference to costs. We may well be pressed to say more specifically during the consultation process what the cost of discretionary increments is expected to be and may need to give Departments more guidance on this; but I agree that it would be much better not to express cost as a formal limit in the scheme itself.

4. The net effect of these changes is to put the main weight of the scheme on the rigorous application of criteria, rather than on some more mechanical limit, and to minimise the obstacles to rapid progress for those individuals whose performance genuinely merits this sort of reward. I think that that is the right emphasis.

5. I hope that you will be content for me to issue the consultation document on this basis, with the aim of reporting back to you by the end of February. The scheme is not set: if we want to alter it after, and in the light of, the process of consultation, we shall be able to do so. We can then work towards an announcement of the details of the scheme before the beginning of the financial year. I would hope that it might also be possible at that time to give some more general indication of plans for introducing performance pay at lower levels in the Service.

6. I am sending copies of this minute to the Chancellor of the Exchequer and to the Minister of State, Privy Council Office.

RA

ROBERT ARMSTRONG

16 January 1987


16. I.

DISCRETIONARY PAY FOR GRADES 2 AND 3

OUTLINE OF PROPOSED SCHEME

General

This note sets out the outline of a proposed scheme for the introduction of discretionary increments at Grades 2 and 3, following the recommendations in the Top Salary Review Body Report of 1985 and the Prime Minister's statement of 22 May 1986.

2. In summary, increments would be given for sustained high performance by individuals over a period of years, in accordance with central guidance on criteria and the rules set out in this note. These rules could be varied, or the scheme terminated, in the light of experience particularly during the build-up period. Costs would be met from within existing running cost limits set.

3. Rates (in 1986 terms) are at Annex A. The implications for pensions are for consideration.

Awarding Procedure

4. Discretionary increments would be awarded by Heads of Departments at Grade 1 level. Where necessary special arrangements would be made for smaller Departments that are not headed at Grade 1 level. Increments for Grade 2s would be subject to approval by the Head of the Home Civil Service. Staff on secondment to another Department would be considered equally with the importing Department's staff, but increments would require the approval of the parent Department. Increments for staff seconded to outside bodies would be considered by parent Departments.

Criteria

5. Guidance on factors to be considered in giving discretionary increments is at Annex B. The receipt by an individual of one discretionary increment would require performance which was exceptional while the receipt of a second would be rare and the receipt of a third yet more rare still. Subject to experience, detailed "quotas" are not proposed for these grades, but the expectation is that if the criteria are rigorously applied no more than 25 per cent of the staff in each grade across the Service would be in receipt of one or more increments at any one time. Departments in making their decisions to give increments would be required to bear this in mind.

6. Increments would be withdrawable on a mark-time basis if performance fell off over a prolonged period.

7. Arrangements would be made for control and monitoring by central Departments to ensure that the criteria were being rigorously and consistently applied, and the 25 per cent overall limit was respected each year. Such arrangements would be particularly important during the period over which the scheme builds up to ensure that appropriate standards were applied and maintained from the outset, and to ensure that the overall cost of the scheme as it builds up was contained within what could be afforded.

Confidentiality, information and appeals

8. Individual increments given would remain confidential, but the overall total number and value would be published annually. Recipients would be informed by their line managers about the increments given to them at an interview arranged for the purpose. No special appeals machinery against the non-receipt of discretionary increments, or the withdrawing of increments, is contemplated, but the normal Departmental appeals machinery would remain available.

Personal pay points

9. The new salary points above the normal maxima for Grades 2 and 3 might also exceptionally be used to provide flexibility for other purposes, in accordance with the note at Annex C. The unified intermediate pay points (UIPP) would be abolished and existing recipients would be assimilated to the appropriate incremental point as personal (pensionable) pay points. Personal pay points would not be taken into account in the 25 per cent referred to above. Those on personal pay points would however where appropriate be eligible for a discretionary increment or increments within these rules, up to the maximum increments for the grade in question.

Normal increments

10. For staff promoted to Grade 2 or 3 after the scheme starts increments on the normal salary scale would only be given on the positive recommendation of the reporting (and countersigning) officer, with confirmation that the officer's performance at least met the needs of the grade (ie, if given a box 1-3 marking in the new annual staff report). Exceptionally, and broadly in line with the criteria for the giving of discretionary increments and rules to be settled, any Grade 3 still on normal scales might also where appropriate be advanced more than one normal annual increment. Increment hopping in this way would not be taken into account in the 25 per cent referred to above.

Performance bonus scheme

11. Grade 3s not eligible for discretionary increment (ie those who are still on normal scales or who have not been on their normal maximum for 2 years) would for 1987-88 remain within the present performance bonus scheme.

Consultation and commencement

12. These proposals will be developed in consultation with staff and staff interests, and generally in the light of comments. Subject to this the aim is that the first discretionary increments should be in payment during the course of 1987-88.

H M Treasury
January 1987

Cabinet Office (MPO)

ANNEX A

PAY LEVELS AND DISCRETIONARY INCREMENTS

Grade 2	on promotion		41,500
	after 1 year		43,500[1]
	discretionary	1st	45,500
		2nd	47,825
		3rd	50,150[2]
Grade 3	on promotion		32,350
	after 1 year		33,850
	after 2 years		35,350[1]
	discretionary	1st	36,850
		2nd	38,425[3]
		3rd	40,000

[1] Normal maximum for the grade [2] UIPP(H) [3] UIPP(L).

The rates shown are in current terms and would be subject to review in April 1987

ANNEX B

GUIDANCE ON THE AWARD OF DISCRETIONARY INCREMENTS

1. Discretionary increments would be used as a reward for sustained high performance. In considering an individual for an award there would be three aspects of his or her performance which would need to be examined in turn.

2. The first would be the job (or jobs) which an individual had done in the grade. Jobs in the Open Structure differ considerably in their nature, loading and content. Although the award of a discretionary increment would depend on performance, rather than job weight, decisions about the award of an increment would need to begin with a neutral, factual assessment of the jobs which a postholder had held including:

a. **objectives.** It would be important to identify the main objectives and tasks which had had to be performed from time to time in order to achieve the purposes of the job, as expressed either formally in a forward job plan or by some more informal means, and their difficulty of achievement;

b. **accountability for resources.** Most, if not all, jobs in the Open Structure involve responsibility for managing people and money. In some cases the responsibility is a matter of line management; in others, for instance where sponsorship of a nationalised industry is involved, it may be less direct. In either case it would be important before considering an individual's performance to be clear about the extent of the resources for which he or she had been responsible and the nature of that responsibility;

c. **job loading.** What may be expected of a postholder may vary depending on workload. There would need to be a careful assessment of the demands of the job and its loading;

d. **representation.** Outside contacts play an important part in many posts in the Open Structure. These might be difficult to quantify but there would need, nevertheless, to be an assessment of how important it was that the postholder should be effective in outside contacts and presentational and negotiating skills in order to perform the job satisfactorily.

3. Second, there would be the actual performance of the postholder in the job in question. For an individual to merit a discretionary increment would require performance which was outstanding or otherwise specially deserving of an award on its merits. The starting-point for judging this would be the individual's recent annual reports in his or her present grade, seen against an assessment of the jobs which he or she had held on the lines of the previous paragraph; arrangements for annual reports for Grades 2 and 3 are currently being revised. The award of an increment would not depend solely on an appraisal in any one year but on the cumulative picture which emerged over a period of time in terms of such factors as:

a. achievement. An individual receiving a discretionary increment would have a record of effective management and successful achievement within the limits of what the job and circumstances permitted. This might be supported by evidence from a financial management system, by the meeting of targets or otherwise by specific example. The achivement would be related clearly to the effort of the individual and evidence of the way in which their leadership, energy, stamina, adaptability, foresight, judgment and planning had made a major contribution to success;

b. quality. There should be evidence that the quality of an individual's contribution had been of a high standard, that any practical action which had resulted from the individual's work had been well thought through and properly evaluated and that the individual's own direct responsibilities for finance and personnel had been well managed even though, as with jobs dominated by policy or professional advice or dealings with outside interests, they might not be the preponderant part of the job.

4. The third question would be whether the individual's high level of performance had been sustained. Discretionary increments would be a reward, not for potential or promotability, nor for one-off achievements however outstanding, but for the maintenance of a high level of performance in the grade over a period of at least two or three years and possibly much longer.

5. Heads of Department would be asked to make it clear to recipients at the time when increments were awarded that they might be withdrawn.

ANNEX C

PERSONAL PAY POINTS

The new salary points above the normal maxima for Grades 2 and 3 might also exceptionally be used to provide flexibility for other purposes.

2. These other purposes include in particular manning needs, for instance, where a department needs to recruit an individual from outside the Civil Service who cannot be accommodated at the normal starting salary for the grade.

3. Salary points used in this way would be known as personal pay points (PPP), as opposed to discretionary incremental points (DIP), and their use be kept entirely separate and distinct from discretionary awards. Personal pay points would be pensionable and not withdrawable. Recipients might also be eligible for discretionary increments in some circumstances.

4. Any Head of Department who wished to pay a person, whether a civil servant or an outsider, on a personal pay point would require the prior approval of the Treasury. The normal Cabinet Office procedures on making appointments would continue to apply.

5. The unified intermediate pay point (UIPP(H) and UIPP(L) would be abolished and existing recipients would be assimilated to the appropriate personal pay point (for UIPP(H) the highest discretionary point for Grade 2 and for UIPP(L) the second discretionary point for Grade 3). Future occupants of posts which now attract UIPP(H) and UIPP(L) would be put on a personal pay point to be settled as and when appointments were made.

6. Heads of Departments should make it clear to staff at the time of appointment that they are on personal pay points, not discretionary increments.

CIV. SERV: Pay pt 16.

MK/D15

CONFIDENTIAL

Prime Minister 2

Minister of State
Privy Council Office

Pilot exercises to monitor the ethnic origins of unemployed claimants began on 12 January in 10 Unemployment Benefit Offices in Leeds, Nottingham and Handsworth. They continue next week. Claimants have the option of declining to participate. The CPSA was fully consulted as were representatives of ethnic minority communities. The exercises have the full support of the Commission for Racial Equality.

2. The CPSA balloted its members concerned on strike action. They voted 123 to 89 not to take action. However, the union subsequently indicated that it would support individual members who stopped work and formed "information lines" outside the offices seeking to dissuade claimants from participating and that payments would be made to them. Some 33 individuals in Leeds and Handsworth are taking action of this kind and passing out leaflets claiming that the exercises are racist in intent.

3. This action, which has nothing to do with the terms and conditions of staff, is wholly unacceptable. Treasury Counsel has advised that the evidence points to a tortious act having being committed by the CPSA and that there is unlikely to be any lawful trade dispute. Even if there was, majority support for action was not secured in the ballot and there is no persuasive evidence that further lawful ballots were held before setting up "information lines".

CONFIDENTIAL

PAYMASTER GENERAL

4. In the light of this advice, I have agreed that the Department should issue a writ against the CPSA on 19 January. A hearing would be likely in about 3 months time if still then necessary. It is on Counsel's advice that I have agreed this course rather than seek an interlocutory injunction.

5. Presentationally, the Department will adopt a low-key approach. But I regard this step as important to demonstrate that the Government is prepared to apply its own industrial relations legislation to its own staff, especially where unions have sponsored politically motivated industrial action as in this case.

6. I am copying this minute to the Prime Minister, David Young and Peter Brooke and to Sir Robert Armstrong.

S. Angell

for KC

Approved by the Minister and
signed in his absence

16.1.87

MR 11/28

CONFIDENTIAL

KCBG.

B/f with RTA minute when it arrives.

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

PRIME MINISTER

DISCRETION PAY AT GRADES 2 AND 3

I have seen your comments on the proposals set out in Sir Robert Armstrong's minute of 16 December. These must have crossed with mine set out in my minute of 22 December.

Like you I think that Sir Robert's proposals are on the right lines, and I remain convinced that the best way forward is to proceed to consultation as he suggests. This would have a number of merits. First, his proposals follow directly from the TSRBs proposals which we have accepted publicly. Secondly, they are capable of extension down the line without excessive cost; I attach great importance to extending performance linked pay down to the lower grades as soon as we reasonably can. Thirdly, the proposals should not unduly complicate this year's main Civil Service settlement, which following the teachers' award is not going to be easy.

My main concern is not in fact with Grade 2 and 3, important though these are, but with the others to whom we hope to extend the scheme in the future, and whose expectations will be based on what we do now. I am therefore very doubtful about making our present proposals any less rigorous or more generous. (On the present proposals, the lowest award for a Grade 3 with one increment is worth slightly over 4 per cent of his normal pay. For people with three increments the figure is slightly over 13 per cent for Grade 3 and slightly over 15 per cent for Grade 2. The average, when the scheme builds up and on the basis of the limits now proposed, is 6 per cent for Grade 3 and 6.7 per cent for Grade 2, all on top of normal rates.)

CONFIDENTIAL

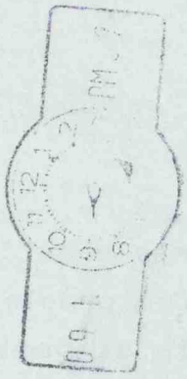
I would agree with you, however, that the proposals should be amended to make it clearer that it is possible for people to get discretionary increments more quickly than is at present suggested, and I think that the drafting of the consultative document should be looked at with this in mind. The consultation document must also make it clear that there must be a limit on numbers and a control of costs within what can be afforded; and we ourselves must be clear that the aim is to contain costs within what the pay bill would otherwise have been. We should be able to avoid spelling out the costs of the increments too precisely given that it will be several years before the scheme is fully mature.

The build-up period means that we shall have plenty of opportunity to consider the scheme as it develops, as well as in the light of the immediate consultation. We need not pretend we have got perfection now. But I feel strongly that we have delayed in this area long enough and that we should now press on with consultations on the basis Sir Robert Armstrong proposed, modified as I have just suggested.

I am copying this minute to the Minister of State, Privy Council Office, and to Sir Robert Armstrong.

N.L.
9 January 1987

CIVIL SERVICE: Pay + Pensions: Pt 16.



IN CONFIDENCE

Ref. A087/83

MR WICKS

We have spoken from time to time about the wastage of good younger civil servants, particularly to the City.

2. The haemorrhage is not confined to the younger people.

3. One Under Secretary of the Department of Trade and Industry was recently head-hunted, and decided to accept the job which was offered to him. His salary now is £70,000 subject to market related review, in contrast to £33,800 as a Grade 3 officer and recent increases of ½ per cent in 1985 for newly promoted Grade 3 officers and 3 per cent in 1986. He is the beneficiary of a non-contributory pension representing 2/3 of final salary payable on retirement at age 62 after 20 years service. On more incidental matters, he receives a car fully taxed and insured up to the value of £25,000; insurance for life; and full private medical care for himself and his family.

4. The civil servant concerned did not want to leave the Civil Service, but with a family to educate and by comparison to what he could hope to get in the Civil Service, it is not surprising that he accepted the offer.

RA

ROBERT ARMSTRONG

8 January 1987

IN CONFIDENCE

Ref. A087/3

MR WICKS

Northern Ireland Permanent Secretaries

The Secretary of State for Northern Ireland has made proposals to the Prime Minister for bringing all six Permanent Secretaries of Northern Ireland departments on to Grade 2 level. At present three are already at that level; the other three are between Grade 2 and Grade 3. The correspondence rests on the Secretary of State's minute of 24 September 1986.

2. I attach a background note which goes into more detail about the posts concerned, and the case for paying them all at the same level.

3. That case was strengthened (in the eyes of the Northern Ireland Permanent Secretaries themselves) by the Government's decision not to implement the Top Salaries Review Body's recommendation for differential rates for Permanent Secretaries in Whitehall; and it will be further strengthened by the introduction next financial year of performance-related discretionary increments for Grade 3. If the Permanent Secretaries now paid less than Grade 2 are not brought up to that level, one or other of them could find that he has working for him a Grade 3 who (with his discretionary increment) is earning more than his Permanent Secretary.

RA

ROBERT ARMSTRONG

5 January 1987

Northern Ireland Permanent Secretaries

Although the Northern Ireland Departments are small by comparison with the major Whitehall Departments (though not with smaller Departments like the Lord Chancellor's Department or the NIO itself), the responsibilities of the Heads of Department are considerable. For example, the Permanent Secretary of the Northern Ireland DHSS (which is one of the second-tier posts) has a staff of 6,500 and is Accounting Officer for expenditure amounting to £2,100M a year. His management team includes a Chief Medical Officer who ranks as a NI Permanent Secretary, five Under Secretaries and two Deputy Chief Medical Officers at equivalent level. To head a department of this size, with responsibility for its management and resources as well as for policy matters, is in many respects a heavier task than being a deputy in a larger Department where ultimate responsibility lies with the Permanent Secretary.

2. Since the Herbecq review of these posts in 1982 (as a result of which the existing differentials were introduced) workloads have increased for a number of reasons, among them the --- Anglo-Irish Agreement. Attached as annexes to this note are a series of outline job descriptions which illustrate the range of responsibilities covered by these posts. The job weights vary; but all would seem to fall within the range covered by Deputy Secretaries in Whitehall and some are at the upper end of the range. And all are Accounting Officers and as such answerable to the Public Accounts Committee (which Deputy Secretaries in Whitehall are not).

3. Direct rule and the centralisation of services following the McCrory Report came together in the early 1970s to produce a new situation in terms of the balance of responsibility between "central government" and other authorities, for which there is

no parallel in Great Britain. Apart from the District Councils whose functions are limited to such matters as refuse collection, burial of the dead and recreational facilities, there is no local government in Northern Ireland. What would normally be the upper tier of local government (with its consequent responsibilities and resource needs including senior posts) is replaced in large measure by the Northern Ireland Departments. And various other functions which are performed in Great Britain by statutory bodies such as the Manpower Services Commission, the Health and Safety Executive and the Forestry Commission are in Northern Ireland undertaken by central government. Because Northern Ireland has had devolved government in the past and it remains the objective to return to this, some programmes like social security which for the rest of the United Kingdom are controlled from London are dealt with locally. These factors increase the loading on Northern Ireland departments and affect the number of senior civil service posts.

4. It has been suggested that, if the Scottish Office needs no more than six Deputy Secretary posts, the Northern Ireland Office should need fewer, because the population of Northern Ireland is less than one-third that of Scotland. The differences to which previous paragraphs have drawn attention demonstrate that comparisons of population size are not a sufficient indicator of comparative workload. In terms of the cost of services provided by central government, which would reflect some of the differences mentioned above, the Northern Ireland block amounts to about £4.6 billion a year, while the Secretary of State for Scotland is directly responsible for some £3.9 billion (ie excluding local authority and social security spending).

ANNEX 1

PERMANENT SECRETARY, DEPARTMENT OF FINANCE AND PERSONNEL

1. Context

Accounting Officer - £40m Departmental Expenditure.

1,600 staff. 5 Under Secretaries directly reporting.

2. Major Areas of Responsibility in Brief

a. Overall financial management of NICS, circa £4b per annum.

b. Control of Supply in respect of Northern Ireland Departments.

c. Provision of Central Research and Advisory capability in Economic, Social and Statistical areas to Northern Ireland Departments.

d. Provision of Central Efficiency Services, embracing IT, Management Services, Data Processing.

e. Provision of Central Personnel Functions to NICS, including Industrial Relations, Recruitment, Management Training.

f. Valuation and Lands Services throughout Northern Ireland.

g. Equality of Opportunity Policy and Programme for NICS.

h. Law Reform in the fields of Land and Family Law and other not clearly falling to other Departments.

3. Representational

a. Chairman, NI Central Whitley Council.

b. Chairman, NI Civil Service Commission.

c. Chairman, Economic Steering Group, Audit Review Group.

d. Member of wide-ranging formal and informal Groups within NICS and wider public service community.

ANNEX 2

PERMANENT SECRETARY, DEPARTMENT OF ECONOMIC DEVELOPMENT

1. Context

Accounting Officer - £315m per annum.

2,600 staff. 4 Under Secretaries directly reporting, apart from Chief Executive, IDB, and his 2 Under Secretaries.

2. Major Areas of Responsibility in Brief

a. Formulation of broad industrial policy in Northern Ireland.

b. Manpower policy and implementation - including industrial and management training, the Employment Service; YTP, etc.

c. Health and Safety Executive.

d. Energy.

e. Tourism.

f. Shipbuilding and Aircraft - Harland and Wolff Ltd; Short Bros Ltd.

g. Companies Regulations.

h. Consumer Protection.

i. Ports and Harbours.

j. Minerals.

k. Non-selective assistance to industry.

l. Development of major Equal Opportunity policy in Northern Ireland, including current "sponsoring" of the FEA and EOC.

m. Overall resource manpower responsibility for the IDB.

3. Representational

Substantial contacts with CBI and TU movement in Northern Ireland; with NI Electricity Service; Local Enterprise Development Unit; NI Tourist Board: Enterprise Ulster; major companies such as Harland and Wolff and Short Bros; and with counterpart Home Civil Service Departments, etc.

PERMANENT SECRETARY, DEPARTMENT OF THE ENVIRONMENT

1. Context

Accounting Officer - £625m per annum.

10,200 staff. 6 Under Secretaries directly reporting.

2. Major Areas of Responsibility in Brief

a. Provision of Public Sector Housing through the NI Housing Executive - Policy and Programme Finance.

b. Strategic Land Planning.

c. NI Infrastructure - roads, bridges, water supply, sewerage, etc.

d. Transportation, including Licensing and Road Safety.

e. Fire Protection and Pollution Control.

f. Conservation.

g. Oversight of District Councils.

h. Works Service (NI equivalent of PSA).

i. Ordnance Survey.

j. Registry of Deeds and Public Record Office.

3. Representation

Major contacts with NI Housing Executive, District Councils and Belfast City Council, professional bodies (since this Department employs all Planners, Architects, Engineers, etc, in NICS).

ANNEX 4

PERMANENT SECRETARY, DEPARTMENT OF EDUCATION

1. Context

Accounting Officer - £675m per annum.

600 staff. 3 Under Secretaries directly reporting.

2. Major Areas of Responsibility in Brief

A. Primary and Secondary Education through -

a. Controlled Schools managed by 5 directly funded by DENI Area Education and Library Boards.

b. Voluntary (maintained) Schools segregated by religion outside the Area Boards system.

c. Special Schools for the Handicapped.

B. 26 Colleges of Further Education.

C. Higher Education - 2 Universities, 2 Teacher Training Colleges.

D. Community and Adult Education.

E. Examinations

F. Library Services.

G. Youth Services - Controlled and Voluntary.

H. Arts and Museums.

I. Sport and Recreation.

J. Community Services and Facilities.

K. Education component to YTP Programmes.

3. Representational

University Grants Commission assessor; Chairman of six advisory and co-ordinating bodies across the range of educational activity in NI; major contact with Vice-Chancellors and senior academics; Chairman of Area Boards; Church Authorities; Teaching Unions; Governing Bodies of Schools, etc.

ANNEX 5

PERMANENT SECRETARY, DEPARTMENT OF AGRICULTURE

1. Context

Accounting Officer - £81.4m plus and Agency responsibility to MAFF and Intervention Board for further substantial spending.

4,500 staff. 5 Under Secretaries and 2 Assistant Secretaries directly reporting.

2. Major Areas of Responsibility in Brief

A. Development of Agricultural and Horticultural Policy and Programmes within UK and EC contexts.

B. Sea and Inland Fisheries.

C. Forestry.

D. Inland Maingates, Drainage and Water Recreation.

E. Agriculture and Food Education Authority in Northern Ireland.

F. Provision of:-

- Agricultural and Horticultural Advisory Service;

- 3 Agricultural Colleges;

- Professorial and Lecturing staff to specialist Departments in the Faculties of Agriculture and Food Science at QUB;

- Economic Research in farming, forestry, fisheries and processing;

- Research and Development;

- Agricultural training.

3. Representational

Wide-ranging contacts with other UK Agricultural Departments and with EC; with Ulster Farmers' Union; Marketing Boards and statutory bodies; the Queen's University of Belfast, since the Department provides the staff for the Faculty of Agriculture and Food Science; the ROI in cross-border issues such as drainage, sea fishing, animal health, etc.

ANNEX 6

PERMANENT SECRETARY, DEPARTMENT OF HEALTH AND SOCIAL SERVICES

1. Context

Accounting Officer - £2,100m.

6,500 staff. 1 Chief Medical Officer of currently equal rank. 5 Under Secretaries and 2 Deputy Chief Medical Officers directly reporting.

2. Major Areas of Responsibility in Brief

A. Health and Personal Social Services through 4 Area Boards and 2 Central Agencies.

B. Social Security.

C. Administration of Medicines and (through District Councils) Food and Drugs Legislation.

D. The NI Census.

E. Registrar General.

F. Social Policy - betting and gaming; liquor licensing; live hare coursing, etc.

G. Provision of professional services in medical and allied fields to NI Departments (eg Prison Medical Service).

3. Representational

Chairman - Social Steering Group. Wide range of contacts with Health and Social Services Boards; BMA; BDA and an extensive voluntary sector. With the UK Health Departments, UK Regulation on training bodies such as GMC; GDC; the professional bodies; University Departments, etc.

ANNEX 7

CHIEF EXECUTIVE, INDUSTRIAL DEVELOPMENT BOARD

1. Context

Accounting Officer - £115m.

300 staff - 2 Under Secretaries and 1 Assistant Secretary directly reporting.

2. Major Areas of Responsibility in Brief

A. Promotion of Inward Investment.

B. Protection, support and development of existing manufacturing industry/employment (some 450 Companies with a labour force in excess of 60,000).

C. Principal adviser on industrial casework.

D. Provision of:

a. selective financial assistance;

b. assistance for research, development and marketing; and

c. sites and premises for industry.

3. Representational

High profile within NI; GB; North America; Far East and Europe - staff employed in all these areas; with Chairman and members of the IDB; media, and senior personnel, etc, of current NI manufacturing companies and potential investors.

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10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

SIR ROBERT ARMSTRONG

DISCRETIONARY PAY AT GRADES 2 AND 3

My note to you of 22 December recorded the Prime Minister's reactions to the scheme for introducing discretionary pay for Grades 2 and 3 proposed in your minute to her of 22 December.

My note said the discretionary increments would be worth on average around 4 per cent to those who receive them. In fact it is of course the first discretionary increment which is worth around 4 per cent. This was a misunderstanding in my own mind, not, I believe, shared by the Prime Minister.

I assume that the average value of the discretionary increments to those who receive them will be around 6 per cent (since up to 1½ per cent of the pay bill is intended to go to up to a quarter of those eligible).

I am copying this minute to Mr. Allan (H.M. Treasury) and Mr. Stark (Mr. Luce's office).

DAVID NORGROVE
5 January 1987

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CONFIDENTIAL

MBPM

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Douglas Hurd CBE MP
Home Secretary
Home Office
50 Queen Anne's Gate
London
SW1H 9AT

31st December 1986

Dear Douglas,

CIVIL SERVICE PAY

This letter replies to your recent minute to Nigel Lawson. While you do not question the approach agreed in MISC 66, you express concern about the Home Office's ability to accommodate the likely level of a civil service pay settlement from April 1987.

The running costs settlement we reached for the Home Office excluding the prison service, though not as generous as you had hoped, made full allowance for you to recruit up to your manpower ceiling and for manpower increases for the immigration service. So far as the prison service is concerned, I appreciate your particular anxieties arising from the uncertainties surrounding the 'Fresh Start' negotiations. But this only serves to underline the need I have repeatedly stressed for effective fallback options to keep within agreed provision for 1987-88 and subsequent years, should the negotiations stall or drag on into 1987-88. I cannot therefore accept that on either side of your department you have no scope for adjustments to live within the running costs limit we have agreed.

You also expressed a general concern about the possible implications for efficiency of under-provision for the costs of pay settlements. I accept that having to make in-year changes can create problems. However if the running costs system is to prove a credible and effective method of control over civil service administration costs, we must keep to the running costs limits we agreed.

We are in the early days of the new system and the Treasury is of course keeping it under close review. I would accept that there may be room for improvement and refinement; I am sure you in turn would agree on the need to maintain a downward pressure on running

costs. We must ensure that any changes we might make do not undermine our commitment to the control of civil service costs, and through them manpower numbers.

I am copying this letter to the Prime Minister, members of MISC 66, and to Sir Robert Armstrong.

Yours ever,

JOHN MacGREGOR



CIVIL SERVICE
PAY
PT 76

MJ

bc BG

10 DOWNING STREET

LONDON SW1A 2AA

22 December 1986

From the Private Secretary

SIR ROBERT ARMSTRONG

DISCRETIONARY PAY AT GRADES 2 AND 3

The Prime Minister was grateful for your minute of 16 December which described the proposed scheme for introducing discretionary pay at grades 2 and 3.

The Prime Minister accepts that the scheme is along the right lines. However she believes it to be insufficiently generous. Only a quarter of the people eligible will receive awards, and the extra amounts will be worth on average only around 4 per cent of pay for those who receive them, and it is likely to take at least 7-8 years from promotion for an outstanding person to reach the top of the scale. The Prime Minister has asked why the percentage amount allocated to the scheme could not be doubled from 1½ per cent to 3 per cent of the pay bill for each grade, and outstanding people enabled to move through the scale more quickly so that, for example, outstanding grade 3 staff might receive more than one increment after their second year in the grade.

I am copying this minute to Alex Allan (HM Treasury) and Michael Stark (Minister of State's Office, Privy Council Office).

DN

David Norgrove

22 December 1986

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NBPM.

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

PRIME MINISTER

Sir Robert Armstrong's minute of 16 December seeks your approval to an outline scheme for discretionary pay at Grades 2 and 3. As he says, the scheme has been prepared jointly by the Treasury and the Cabinet Office (MPO) and is a useful development of our policy of strengthening the link between pay and performance. In particular, I fully support the proposal that we should deal with the poor performers by withholding normal increments as well as providing additional rewards for those who perform outstandingly.

You asked the Minister of State, Privy Council Office and me to look at the possibility of extending the approach in the outline scheme to Grades 4-7 as a replacement to the existing Performance Bonus Scheme. This is something which our officials are working on, together with other proposals for strengthening the link between pay and performance for professional grades below Grade 7. I would hope we would be able to make recommendations in early February. In the meantime, I agree that we should open discussion with the staff and their representatives on the scheme for Grades 2 and 3 as Sir Robert recommends.

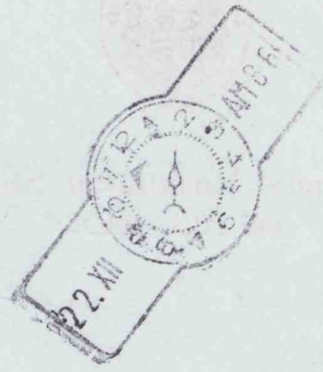
Cathy Ryding

(Private Secretary)

pp **N.L.**

22 December 1986

(Approved by Chancellor and signed in his absence)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Prime Minister

I have great reservations about Robert Armstrong's proposals. He is fudging a very difficult problem - namely the lack of morale and the growing differentials between the public and private sector, evidenced most clearly in the loss of first-class staff by the Treasury.

Armstrong's proposals do little if anything to meet this problem.

Recommendation.

Ask him for a more fundamental paper on morale & pay structure among middle to senior civil servants. Then you can make a proper assessment.

BG

PRIME MINISTER 19 December 1986

REWARDING GOOD PERFORMANCE IN THE CIVIL SERVICE

Robert Armstrong seeks your agreement to introducing a system of performance-related pay for Deputy and Under Secretaries in the Civil Service.

Performance-related pay in the Civil Service is long overdue:

- to improve staff motivation;

- to recognise the wide variations in performance and job load within grades;

- to retain able staff who are increasingly leaving the Service primarily because pay is much better outside.

The performance bonus experiment has been a disaster. The Hay-MSL survey found that most staff regarded it as positively demotivating. This was no surprise. A successful performance pay system needs to have the following features:

- performance pay should be based on standards of performance agreed in advance and paid if those standards are achieved even if this means exceeding the expected number of people receiving the bonus;

- the basis for awarding performance pay should be the same as the basis for assessing performance annually for other purposes;

- staff should be told why they have or have not received an award;

- once awarded, the performance supplement should not be withdrawn provided the same level of performance is maintained since otherwise it will not be built into salary expectations;

- the maximum performance pay achievable needs to be a substantial percentage of total pay (say 25%) in order to provide real motivation;

- most staff should be paid to some extent on the basis of performance though not at the maximum rate.

These latest proposals are a great improvement on the performance bonus scheme. But they are mean. A newly promoted Under Secretary will have to wait 3-4 years before becoming entitled to performance pay and even then will receive only about 4% more than his averagely performing contemporary. In order to reach the highest performance pay point he will have to perform well for 7-8 years by which time he will be paid about 13% more than his averagely performing colleague by which time, if he is really good, he will probably have been promoted in any case. Most staff covered by the scheme will not receive any element of performance pay since only 25% of staff are expected to receive performance awards. But the position will gradually improve to some extent because staff newly entering these grades will only get annual increments if their performance is satisfactory.

The main reason for the lack of generosity in the system is cost. The aim should be to move in the next few pay settlements to a much greater element of performance pay. If the pay settlement for these grades as well as annual increments could be incorporated in performance pay quite a lot could be achieved over the next few years.

Conclusion

Support this scheme as a start. But suggest that we need to move over the next few pay settlements to a position in which performance pay forms a much a larger part of remuneration and affects a much higher proportion of staff in these grades. Longer term objectives for the pay structure of this kind should be identified so that annual pay settlements can be fitted in to a strategy for achieving them.

Peter Stredder

PETER STREDDER

Can't we double it in % terms and make it available after 2 years in a grade?

PRIME MINISTER

DISCRETIONARY INCREMENTS

Sir Robert Armstrong's minute below describes a proposed scheme for discretionary increments for grades 2 and 3 which was first recommended by the TSRB in their 1985 report.

It is a useful start (Brian Griffiths disagrees - note below), but very modest. The scheme would allow no more than a quarter of the staff in each grade to be in receipt of additional increments at any one time, and the overall cost would have to be contained within 1½ per cent of the pay bill for each grade. In other words, the average person who falls within that quarter of the people in each grade will receive a few per cent more on their salaries. I would much prefer to see a system in which a larger proportion of pay was discretionary so that almost everyone was above the basic, some more than others. The system now proposed would encourage the favoured quarter but leave three-quarters of the people feeling, to varying degrees, dissatisfied. This is not a helpful psychological background against which to mount an important innovation.

But we have to start somewhere and the scheme has to be affordable. Robert had great difficulty getting even this scheme agreed. Delay could lead it to die. It also has the great advantage of having been proposed by the TSRB and already accepted by the Government in public.

On the detail of the scheme you will want to note particularly that it is proposed to make discretionary the present automatic increments for the two grades concerned, seeking to reverse the decision taken in the context of the discussions on the 1986 TSRB award. No recommendation is made on whether the discretionary increments should be pensionable: that is to be settled later.

Agree the proposed consultation document, subject to the views

SLHADX

of colleagues, making the points proposed by the Policy Unit? Agree also to take up with Sir Robert Armstrong the more general points put by Brian Griffiths?

Amanda Ross - Duty Clerk

pp DAVID NORGROVE

19 December, 1986.

Ref. A086/3484

PRIME MINISTER

I attach an outline of the proposed scheme for discretionary pay at Grades 2 and 3. It has been prepared jointly by the Treasury and the Cabinet Office (MPO) and takes account of a dummy-run in key departments. I have discussed it with my Permanent Secretary colleagues, and they generally (though not quite unanimously) support it.

2. The scheme follows closely the recommendations of the Top Salaries Review Body. Discretionary increments will be awarded for sustained high performance. No more than 25 per cent of staff in each grade may be in receipt of increments at any one time, and there will be central controls to ensure that the overall cost is contained within 1½ per cent of the pay bill for each grade. Increments will be withdrawable (on a mark-time basis) where performance falls off. The scheme would cost around £1/3 million a year but these costs would be met from existing running cost provision.

3. If you are content, I propose to circulate the scheme formally before Christmas, so that Permanent Secretaries may go over it with their staff at Grades 2 and 3, and also that there may be consultations with staff interests as you promised in your statement in May. We aim to complete this process by early February and to seek your agreement then to a public announcement.

4. It is likely that there will be pressure to make discretionary increments pensionable, a point on which the TSRB were silent. This is not an easy issue. The costs of pensionability could be high, and could distort the

PAYAAM

scheme. They require careful assessment; we would need to be sure that there was no risk of abuse, for instance through the award of an increment a year or two before retirement just to increase someone's pension. On the other hand it is anomalous to have some increments pensionable and others not; and the more performance pay is extended throughout the Service the more difficult it will be to maintain the distinction. The options are being explored further and I will report back to you before the final announcement in February. In the meantime the text leaves the point open.

5. The reports on the Performance Bonus Scheme showed that, though that was widely disliked, there was general support for the introduction of an element of performance-related pay into the Civil Service pay system. This Scheme, which introduces this principle into the system, incorporates not only discretionary increments but the possibility of accelerating increments for those who perform exceptionally well while on the normal salary scale and withholding the normal "automatic" increments from those who perform poorly. When you discussed the TSRB report with your colleagues in May there were reservations on this latter point, of withholding normal increments from poor performers. Cases in which it is desired to withhold normal increments from a newly promoted Grade 3 or Grade 2 will no doubt be few and far between. Someone whose performance is good enough to justify promotion one year is not very likely to have slipped so far as to fail to qualify for a normal increment the next year. Nonetheless, and looking to the future, the principle is important: the view among my Permanent Secretary colleagues is that, if we are going to introduce performance pay properly, we should be prepared to tackle poor performers as well as reward the best. I share this view, and hope you will agree to our reopening the issue in this document. The unions will no doubt seize on it as the "thin end of the

wedge", but unless we are prepared to make this move, in a context which should be quite attractive to staff generally, we shall never get anywhere.

6. The scheme has been drafted with the possibility of extension to lower grades in mind. Its extension to Grades 4 to 7, where it would supersede the present performance bonus experiment, is being explored with Departments. There are also tentative discussions in hand about strengthening the link between pay and performance for certain professional grades below Grade 7. The numbers which could be affected at these lower levels would be much greater than for Grades 2 and 3: 20,000 for Grades 4 to 7 and over 45,000 if we succeeded in bringing in the professional groups. I will report back to you on these various discussions in early February. This report will also cover the future of the Performance Bonus Scheme where a decision is needed about whether to carry on with the third year of the experiment.

7. These developments on performance pay are of course only part of the more general efforts which the Treasury with the support of the Cabinet Office (MPO) are making to develop the pay system and make it more sensitive not only to individual merit but to shortages in certain skills and to regional differences, subject to containing the total size of the pay bill. Taken together these steps could represent a profound change in the management of the Service.

8. I am copying this minute and the attachment to the Chancellor of the Exchequer and to the Minister of State, Privy Council Office.

RA

ROBERT ARMSTRONG

16 December 1986

PAYAAM

DISCRETIONARY PAY FOR GRADES 2 AND 3

OUTLINE OF PROPOSED SCHEME

General

This note sets out the outline of a proposed scheme for the introduction of discretionary increments at Grades 2 and 3, following the recommendations in the Top Salary Review Body Report of 1985 and the Prime Minister's statement of 22 May 1986.

2. In summary, increments would be given for sustained high performance by individuals over a period of years, in accordance with central guidance on criteria and the rules set out in this note. These rules could be varied, or the scheme terminated, in the light of experience. Costs would be met from within existing running cost limits set.

3. Rates (in 1986 terms) are at Annex A. The implications for pensions are for consideration.

Awarding Procedure

4. Discretionary increments would be awarded by Heads of Departments at Grade 1 level. Where necessary special arrangements would be made for smaller Departments that are not headed at Grade 1 level. Increments for Grade 2s would be subject to approval by the Head of the Home Civil Service. Staff on secondment to another Department would be considered equally with the importing Department's staff, but increments would require the approval of the parent Department. Increments for staff seconded to outside bodies would be considered by parent Departments.

Criteria

5. Guidance on factors to be considered in giving discretionary increments is at Annex B. A first discretionary increment would normally only be given to an individual who had been on his normal maximum for at least 2 years; there would normally be a minimum gap of 2 years before a second increment could be given, and a further minimum gap of 2 years before a third increment could be given. Criteria would be set at a high level and rigorously applied. The receipt by an individual of one discretionary increment would require performance which was outstanding or otherwise exceptional, while the receipt of two would be rare and the receipt of three yet more rare still. Subject to experience, detailed "quotas" are not proposed for these grades, but the expectation is that if the criteria are rigorously applied no more than 25 per cent of the staff in each grade across the Service would be in receipt of one or more increments at any one time, and the cost of the scheme overall should not exceed 1½ per cent of the pay bill of the grades in question. Departments in making their decisions to give increments would be required to bear these limits in mind.

6. Increments would be withdrawable on a mark-time basis if performance fell off over a prolonged period.

7. Arrangements would be made for control and monitoring by central Departments to ensure that the criteria were being rigorously and consistently applied, and the 25 per cent and 1½ per cent overall limits were respected, each year.

Confidentiality, information and appeals

8. Individual increments given would remain confidential, but the overall total number and value would be published annually. Recipients would be informed by their line managers about the increments given to them at an interview arranged for the purpose. No special appeals machinery against the non-receipt of discretionary increments, or the withdrawing of increments, is contemplated, but the normal Departmental appeals machinery would remain available.

Personal pay points

9. The new salary points above the normal maxima for Grades 2 and 3 might also exceptionally be used to provide flexibility for other purposes, in accordance with the note at Annex C. The unified intermediate pay points (UIPP) would be abolished and existing recipients would be assimilated to the appropriate incremental point as personal (pensionable) pay points. Personal pay points would not be taken into account in the 25 per cent and 1½ per cent referred to above. Those on personal pay points would however where appropriate be eligible for a discretionary increment or increments within these rules, up to the maximum increments for the grade in question.

Normal increments

10. For staff promoted to Grade 2 or 3 from 1 April 1987 increments on the normal salary scale would only be given on the positive recommendation of the reporting (and countersigning) officer, with confirmation that the officer's performance at least met the needs of the grade (ie, if given a box 1-3 marking in the new annual staff report). Exceptionally, and broadly in line with the criteria for the giving of discretionary increments and rules to be settled, any Grade 3 still on normal scales might also from 1 April 1987 where appropriate be advanced more than one normal annual increment. Increment hopping in this way would not be taken into account in the 25 per cent and 1½ per cent referred to above.

Performance bonus scheme

11. Grade 3s not eligible for discretionary increment (ie those who are still on normal scales or who have not been on their normal maximum for 2 years) would for 1987-88 remain within the present performance bonus scheme.

Consultation and commencement

12. These proposals will be developed in consultation with staff and staff interests, and generally. Subject to this the aim is that the first discretionary increments should be in payment during the course of 1987-88.

H M Treasury **Cabinet Office (MPO)**
December 1986

ANNEX A

PAY LEVELS AND DISCRETIONARY INCREMENTS

Grade 2	on promotion		41,500
	after 1 year		43,500[1]
	discretionary	1st	45,500
		2nd	47,825
		3rd	50,150[2]
Grade 3	on promotion		32,350
	after 1 year		33,850
	after 2 years		35,350[1]
	discretionary	1st	36,850
		2nd	38,425[3]
		3rd	40,000

[1] Normal maximum for the grade [2] UIPP(H) [3] UIPP(L).

The rates shown are in current terms and would be subject to review in April 1987

12 December 1986

ANNEX B

GUIDANCE ON THE AWARD OF DISCRETIONARY INCREMENTS

1. Discretionary increments would be used as a reward for sustained high performance. In considering an individual for an award there would be three aspects of his or her performance which would need to be examined in turn.

2. The first would be the job (or jobs) which an individual had done in the grade. Jobs in the Open Structure differ considerably in their nature, loading and content. Although the award of a discretionary increment would depend on performance, rather than job weight, decisions about the award of an increment would need to begin with a neutral, factual assessment of the jobs which a postholder had held including:

a. **objectives.** It would be important to identify the main objectives and tasks which had had to be performed from time to time in order to achieve the purposes of the job, as expressed either formally in a forward job plan or by some more informal means, and their difficulty of achievement;

b. **accountability for resources.** Most, if not all, jobs in the Open Structure involve responsibility for managing people and money. In some cases the responsibility is a matter of line management; in others, for instance where sponsorship of a nationalised industry is involved, it may be less direct. In either case it would be important before considering an individual's performance to be clear about the extent of the resources for which he or she had been responsible and the nature of that responsibility;

c. **job loading.** What may be expected of a postholder may vary depending on workload. There would need to be a careful assessment of the demands of the job and its loading;

d. **representation.** Outside contacts play an important part in many posts in the Open Structure. These might be difficult to quantify but there would need, nevertheless, to be an assessment of how important it was that the postholder should be effective in outside contacts and presentational and negotiating skills in order to perform the job satisfactorily.

3. Second, there would be the actual performance of the postholder in the job in question. For an individual to merit a discretionary increment would require performance which was outstanding or otherwise specially deserving of an award on its merits. The starting-point for judging this would be the individual's recent annual reports in his or her present grade, seen against an assessment of the jobs which he or she had held on the lines of the previous paragraph; arrangements for annual reports for Grades 2 and 3 are currently being revised. The award of an increment would not depend solely on an appraisal in any one year but on the cumulative picture which emerged over a period of time in terms of such factors as:

a. **achievement.** An individual receiving a discretionary increment would have a record of effective management and successful achievement within the limits of what the job and circumstances permitted. This might be supported by evidence from a financial management system, by the meeting of targets or otherwise by specific example. The achivement would be related clearly to the effort of the individual and evidence of the way in which their leadership, energy, stamina, adaptability, foresight, judgment and planning had made a major contribution to success;

b. **quality.** There should be evidence that the quality of an individual's contribution had been of a high standard, that any practical action which had resulted from the individual's work had been well thought through and properly evaluated and that the individual's own direct responsibilities for finance and personnel had been well managed even though, as with jobs dominated by policy or professional advice or dealings with outside interests, they might not be the preponderant part of the job.

4. The third question would be whether the individual's high level of performance had been sustained. Discretionary increments would be a reward, not for potential or promotability, nor for one-off achievements however outstanding, but for the maintenance of a high level of performance in the grade over a period of at least two or three years and possibly much longer.

5. Heads of Department would be asked to make it clear to recipients at the time when increments were awarded that they might be withdrawn.

ANNEX C

PERSONAL PAY POINTS

The new salary points above the normal maxima for Grades 2 and 3 might also exceptionally be used to provide flexibility for other purposes.

2. These other purposes include in particular manning needs, for instance, where a department needs to recruit an individual from outside the Civil Service who cannot be accommodated at the normal starting salary for the grade.

3. Salary points used in this way would be known as personal pay points (PPP), as opposed to discretionary incremental points (DIP), and their use be kept entirely separate and distinct from discretionary awards. Personal pay points would be pensionable and not withdrawable. Recipients might also be eligible for discretionary increments in some circumstances.

4. Any Head of Department who wished to pay a person, whether a civil servant or an outsider, on a personal pay point would require the prior approval of the Treasury. The normal Cabinet Office procedures on making appointments would continue to apply.

5. The unified intermediate pay point (UIPP(H) and UIPP(L) would be abolished and existing recipients would be assimilated to the appropriate personal pay point (for UIPP(H) the highest discretionary point for Grade 2 and for UIPP(L) the second discretionary point for Grade 3). Future occupants of posts which now attract UIPP(H) and UIPP(L) would be put on a personal pay point to be settled as and when appointments were made.

6. Heads of Departments should make it clear to staff at the time of appointment that they are on personal pay points, not discretionary increments.

CHANCELLOR OF THE EXCHEQUER

CIVIL SERVICE PAY

I saw with interest the proposals in your minute of 2 December to the Prime Minister. I suggest that we need to be clear about their financial implications.

Departments have financial provision only for a settlement whose total cost does not exceed the limits upon which we settled in PES; and that provision has apparently already been eroded by the 1 per cent increase which the paper by officials says is in the pipeline. For reasons which I understand, you are contemplating pay increases for which existing financial provision will be inadequate, unless there are corresponding savings or efficiency improvements to be had.

The existing provision for Home Office services already includes assumptions about substantial increases in productivity, in particular the implementation of our "Fresh Start" proposals for the employment of prison officers. It would be unsafe to expect that the effects of a pay settlement in excess of provision could be absorbed by efficiency improvements not already assumed. In the absence of extra provision, such a settlement could result in enforced vacancies, loss of performance, and staff unrest. This would be particularly troubling in operational areas where we have given priority to improving performance, and where demands have increased, e.g. prisons, police support services and immigration.

We shall have to look carefully at the effects of a settlement on those services, once it is known. I do not myself belive that inaccurate provision for future pay settlements is a satisfactory way of improving efficiency in the Civil Service.

I am sending a copy of this minute to the recipients of yours.

Douglas Hurd

December 1986

Pay & Pensions: CIVIL SERVICE.
Pt 16.



Prime Minister 4

Why not a similar scheme for the Civil Service?

DRN 10/12

mo

UK NEWS—LABOUR

Abbey National links pay to performance

BY HELEN HAGUE, LABOUR STAFF

THE ABBEY NATIONAL Building Society, Britain's second largest, is to pay its employees according to their performance and end across-the-board percentage increases.

The move marks a radical break from the sector's pay bargaining traditions.

It comes in the wake of Abbey National's plans, announced earlier this year, to introduce a cash profit sharing bonus scheme for employees in March.

Performance related pay and the bonus scheme make up the society's policy of changing patterns of staff remuneration when the Building Societies Act comes into effect in January, giving societies new powers to compete with other financial institutions.

The plan for a performance related pay system, due to take effect in February, was endorsed yesterday by members of the Abbey National Staff Association, which represents most of the employees.

In a secret ballot conducted by the Electoral Reform Society, members voted by 3,271 to 243 to accept the staff association leadership's recommendation of the system.

It will replace across-the-board increases supplemented by merit payments for some staff.

Under the new system clerical grades up to area managers will be graded on performance against previously agreed objectives.

There will be five grades: unacceptable, less than effective, effective, more than effective and outstanding.

Employees who are graded as effective will get 100 per cent of an agreed benchmark rise, to be negotiated between the society and the staff association later this week. Those graded outstanding will get 200 per cent of the benchmark figure. Those graded unacceptable will get no rise.

Under the agreement, all staff will have the right to appeal against their performance appraisal and be represented at the appeal by the staff association.

Mr Bill Reid, staff association chairman, said yesterday it had negotiated in-built safeguards.

"We feel that it is going to be to the overall advantage of our members."

Mr John King, the society's personnel manager, said last night: "Biulding societies have got to be increasingly aware of the more competitive environment we are about to enter.

"This new system is our way of saying to employees that their performance counts. We are casting off the shackles of across-the-board increases and rewarding better performers accordingly."

CONFIDENTIAL

CCBG.

SECRETARY OF STATE FOR THE ENVIRONMENT

NBPM.

Prime Minister

CIVIL SERVICE PAY NEGOTIATIONS 1987

I have seen a copy of the minute dated 2 December from the Chancellor of the Exchequer. I understand that MISC 66 has already considered this.

I strongly support the view that any pay increase across the board should form as small a part as possible of the total settlement next year. As you know, I have taken a robust line with local authorities about their need to keep close control of their wage costs and pay careful attention to market forces. It is only right that central government should take its own medicine.

I am very conscious too of the problems of recruitment and retention in particular skills and in the South East generally. We need to apply the maximum share of what we can afford in total to relieving these problems if certain key functions, including those of the Property Services Agency, are to be adequately discharged.

I am copying this minute to the Chancellor of the Exchequer, other members of MISC 66, the Home Secretary, the Secretary of State for Education and Science, and Sir Robert Armstrong.

N R

N R

10 December 1986

CIVIC SERVICE

PAY

PTT 6



P 02389

PRIME MINISTER

Civil Service Pay 1987
[Minute of 2 December from Chancellor of the Exchequer]

DECISIONS

The Meeting provides a first opportunity to discuss the Government's strategy for the 1987 Civil Service pay negotiations. Only one specific decision is needed: whether to commission the Office of Manpower Economic (OME) to undertake a survey of pay movements in the private sector to inform the Civil Service negotiations.

2. A further meeting of the Group will be needed in the new year to consider how the negotiations should be played, once claims have been received from all the unions concerned and it has been possible to make an assessment of the negotiating climate.

OBJECTIVES

3. The Government have a number of objectives. As an employer they wish to:

(i) recruit, retain and motivate staff in sufficient numbers and of sufficient quality to get the work done;

(ii) to minimise the costs of running the Civil Service;

(iii) to avoid damaging industrial action;

and as Government they wish:

(iv) to set an example to other public and private sector employers of moderation in pay settlements.

RECENT HISTORY

4. Over the last 4 years the Government have been successful in limiting Civil Service pay rises. As the Treasury's Annex makes clear, the cumulative increase in Civil Service rates over the last four years has been below the rate of inflation, and in each year over three quarters of non-manual workers in the private sector have received higher pay rises than the Civil Service. In terms of earnings, the cumulative increase over the three years up to 1985 has been 16.6 per cent, compared with 25.9 per cent in the private sector.

QUANTUM OF 1987 INCREASE

5. The Treasury judgement (paragraph 8 of their note) is that the Government should aim to hold the across-the-board element of the increase to 3.5 - 4 per cent, with 1 per cent on top for managerial initiatives - ie a total increase of 4.5 - 5 per cent. This compares with the estimate that private sector settlements will average 5 per cent and that the increase in average earnings will be 6.5 per cent. Settlements in most other parts of the public services sector will be substantially higher: apart from the exceptional offer to teachers, the police and fire services have already received more than 7 per cent and the local authority manuals 6.75 per cent, and the Review Bodies must be expected to recommend increases broadly in line with the movement in average earnings. The question will be, of course, whether general increases on the scale contemplated by the Treasury - which are clearly desirable on wider economic grounds - will be deliverable and enable Departments to recruit and retain the staff they need. Some departments - particularly local offices in difficult areas - have rates of turnover which are said to be seriously hindering efficiency, and it is unlikely to be possible to overcome the problems by limited selective pay increases. It will also be necessary to consider the industrial relations impact of the Treasury's preferred approach: some of the unions have considerable capacity to take very costly selective action if moderate opinion can be mobilised against the management's approach. It

is, however, too soon to form a view on this latter point.

A SELECTIVE APPROACH

6. The Treasury paper argues for using as much as possible of the available money for selective pay increases to meet management problems. This will help overcome the difficulties of recruiting in London and the South East, for example, and in dealing with skill shortages. Treasury have in hand work on geographical pay, but it is not yet clear to what extent it will be possible to introduce more than a token element of flexibility in time for the 1987 negotiations.

AN OME STUDY?

7. In 1984 and 1986 the Government commissioned a study of pay movements in the private sector from OME. If a study is to be commissioned this year, work must be put in hand now. The Chancellor of the Exchequer strongly opposes such a study. The main arguments for and against are:

(a) In Favour

(i) The OME study would be based on the private sector, and would therefore divert attention away from a number of recent exceptionally high public sector settlements (particularly teachers);

(ii) the OME study would focus discussion on the inter-quartile range, which is likely to be 5.5 - 6.25 per cent. Any unreasonably high demand by the unions could then be more easily dismissed;

(iii) it would make it easier for the Government's case to be presented to rank and file members as being fair and objective.

(b) Against:

(i) the unions were offered a long-term pay agreement, which included independent surveys of comparable private sector settlements, and rejected it;

(ii) the Government would be obliged to open at the lower quartile revealed by the study (5.5 per cent), and there would be strong pressure to move towards the median (5.75 per cent);

(iii) it would be seen as reintroducing an element of comparability (although it was the approach recommended by Megaw, and is based on pay movements and not levels).

8. If the Group judge that the Government are unlikely to be able to achieve a settlement below the inter-quartile range, an OME study might be a useful tactic to focus the negotiations and strengthen the Government's case. If, however, they believe that a settlement below the lower quartile is achieveable, then clearly there should be no OME study.

HANDLING

9. You will wish to ask the Chancellor of the Exchequer to introduce the discussion. Departmental Ministers will wish to provide the managerial perspective, while the Secretary of State for Employment will also wish to comment on the wider pay scene. Mr Kemp (Treasury, and Chairman of the Official Group), who will be conducting the negotiations with the unions, will be able to advise on the unions' attitudes.

J B UNWIN

Cabinet Office
3 December 1986

CONFIDENTIAL

Cabinet Office

MANAGEMENT AND PERSONNEL OFFICE

From the Minister of State
Privy Council Office
The Rt. Hon. Richard Luce MP

Great George Street
London SW1P 3AL
Telephone 01-233 8610

Our ref: C086/70
3rd December 1986

PRIME MINISTER

CIVIL SERVICE PAY 1987

I gather that a meeting of MISC 66 has been arranged for tomorrow at a time when I have long-standing unavoidable commitments out of London.

In my view the objective should be to build on the Megaw principles which underlay last year's pay settlement, and more generally to look at the future development of our pay system with particular reference to:

a) making greater use of performance pay;

b) differentiating more than hitherto between pay rates for different skills; and

c) recognising the considerable differences which now exist between pay levels in different regions.

I agree very much with Nigel Lawson's coment that this is the road down which we have to progress.

My main priority would be progress on performance pay. I know that a lot of work is in hand on this in the Treasury and in my own Department. I hope very much that we will be able to structure the pay settlement next year so as to allow room for further progress in this area.

I am sending copies of this minute to the Chancellor of the Exchequer and to other members of MISC 66.

MCS
(Approved by the Minister of State and signed in his absence)



PRIME MINISTER 3 December 1986

CIVIL SERVICE PAY 1987

You are taking a meeting of MISC 66 after Cabinet tomorrow to take preliminary decisions on the Government's approach in the 1987 Civil Service Pay negotiations. The Chancellor has circulated, under cover of his own minute, a note by Treasury officials.

The note suggests that the aim should be a settlement on the following lines:

- an overall settlement involving an increase in the pay bill of 4.5%-5%;

- made up of an across-the-board increase in line with inflation, ie of 3.5%-4%;

- with the balance of 1% to meet higher percentage increases in certain cases:

  - for staff in some regions (probably Greater London and the South East);

  - for groups where there is a particular recruitment shortage;

  - to give greater reward for individual performance and effort.

We support the general strategy of trying to achieve a relatively low overall settlement with higher increases for certain groups. It is also crucial that this settlement starts a trend to greater regional variation in pay. Anecdotal evidence suggests that Civil Service pay rates in many regions are more than sufficient to recruit able staff

(a recent visit to Birmingham confirmed this) but that in Greater London and parts of the South East they are significantly below what is needed to recruit and retain staff of adequate quality. In the longer term, more decentralised pay bargaining would help. You might ask what is being done about this.

Ideally, there should be no general pay increase at all, but this is not realistic, particularly in an Election year, because it would almost certainly provoke a major Civil Service strike. The Treasury probably have the balance about right in trying to keep the general increse at about inflation. If this approach is repeated over 4 or 5 years it will have a major impact on relative salary levels.

The only specific decision to be taken tomorrow is whether or not there should be an OME survey of outside pay movements as in the 1984 and 1986 settlements. A survey is likely to show an inter-quartile range of 5.5%-6.25%. Even if the survey were to "inform but not constrain" negotiations, staff would expect a pay increase of at least the 5.5%. Not only would this be above the desired settlement, it would make it very difficult to secure variations in pay increases. We therefore fully support the proposal that there should not be such a survey this year.

One further point that needs to be noted is the effect of this strategy on the timing of the 1987 pay settlement. The settlement outlined is probably just sufficient to avoid a strike, particularly if there are some reductions in taxation in the Budget. But it will not produce a quick settlement; on past form, negotiations are likely to drag on until July or August.

Conclusion

We support the approach set out in the note by Treasury officials. The aim should be the lowest possible across-the-board settlement and highest possible regional and recruitment-related variations in pay within an overall bill of 4.5%-5%. An OME survey of outside pay movements is unlikely to be helpful in this strategy and should therefore not be pursued.

Peter Stredder

PETER STREDDER

psl/6A

CONFIDENTIAL

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

PRIME MINISTER

CIVIL SERVICE PAY 1987

I attach a note by Treasury Officials about the prospects for the forthcoming round of negotiations on Civil Service pay. This has been prepared in consultation with officials in other Departments.

1987 is inevitably going to be a difficult year for Civil Service pay. On the one hand, the running cost limits we have agreed, which are essential to the control of public expenditure, coupled with the desire to give a good rather than a bad example to other employers, point to aiming for a low settlement. On the other hand, despite the relatively generous and agreed 1986 settlement, the ambitions of the unions and of staff, fuelled by "catching up" objectives, will be for much larger increases than are consistent with our plans. Inspired in part by the Government's offer to the teachers, two of the biggest unions have already given notice that they will be lodging claims for 20 per cent and 15 per cent respectively, although they well know that they have no hope of getting this.

A further important consideration is the need to carry on with what we have now begun by way of breaking up the Civil Service pay structure and making it more finely tuned. We need to get better value for money and make the system more responsive to specific management needs. Measures are already either in place or planned to distinguish more sensitively than at present between different skills, different personal qualities and merits, and different areas of the country. None of this is easy, especially since in the short run it risks having a money cost and adding to managerial

burdens in Departments. But I am sure it is the road down which we have to progress, and the only question should be the speed at which we travel.

For 1987, therefore, I think the paper below is right in suggesting that we shall have to aim for the best fit we can between the three elements of keeping overall costs low, continuing to develop a more sensitive and flexible pay system, and trying to achieve a peaceful settlement. It is difficult to hazard a guess as to what this might come out at, but I feel we should aim for a settlement whose overall cost is not much more than the rate of inflation.

the rate of inflation when? (on this see para 8 of the attachment)

The paper below invites only one specific decision: whether or not we should commission an independent survey of private sector settlements by the Office of Manpower Economics, on the lines of those undertaken in 1984 and 1986, which would "inform but not constrain" bargaining. There are some arguments for this, on the grounds that it might conceivably lower expectations and at the same time "civilise" the negotiations. But I have to say that I am strongly against it; it implies a willingness to negotiate within the quartiles whatever the formal position, and the lower quartile may well be higher than we would wish to be committed to. The plain fact is that we offered the unions a long-term pay agreement, which included independent surveys of comparable private sector settlements, and they have rejected it. They cannot expect to have both the bun and the penny.

I am copying this to the other members of MISC 66, to the Home Secretary, to the Secretary of State for the Environment and to the Secretary of State for Education and Science, and to Sir Robert Armstrong.

(N.L.)

2 December 1986

CIVIL SERVICE PAY IN 1987

Note by the Treasury

1. The main civil service unions will submit their pay claims in January. Detailed and tactical decisions can only be taken as negotiations proceed but it is not too early for Ministers to consider the general approach and, against this background, to decide whether or not to commission an independent survey of private sector earnings.

BACKGROUND

2. The cumulative increase in civil service pay rates has, over the last four years, been at about the increase in the RPI but below the lower quartile for private sector settlements. The 1984 and 1985 settlements had to be imposed on the unions, with industrial action only just avoided in 1985, but last year's 6 per cent increase was in the end agreed with the unions even though it was below the median for the private sector. At the same time the non-industrial civil service fell in numbers by 5½ per cent, to just under ½ million.

3. As well as these across the board percentage increases, there have been more selective changes. Special pay additions and a number of restructurings and reviews of particular groups (some of them covering very large numbers of staff) were designed to help with management problems such as recruitment and retention or the introduction of new technology. These developments mean that a substantial number of staff (with a slight bias towards the lower paid) have had increases on top of the percentages quoted above. They also mean that the gross increase in the pay bill for 1986-87 was 1 per cent higher than the basic 6 per cent, and that about 1 per cent is already in the pipeline for 1987-88, because these selective increases take effect at different dates. However, because "drift" in the civil service is low (in fact zero on the latest figures) the increase in average earnings in the civil service in 1986-87 is expected to be less than for the economy as a whole.

THE APPROACH TO 1987

4. There are strong arguments for continuing with the selective approach. The long-term aim is a more flexible pay system giving more recognition to skills, performance and market factors. As well as tackling the problems affecting particular groups of staff, as in 1986, next year should see some initial moves towards a geographical approach and a better linking of pay and performance. Work on both of these is in hand.

5. There are obviously also strong arguments for as low an overall settlement as possible. Each 1 per cent costs just over £50 million per annum. The industrials, who usually follow suit, add a further £8-9 million in a full year. All increases have to be absorbed within departments' running cost limits. A more general point is the need to encourage other employers to cut back on general pay increases and concentrate on increases which bring improvements in productivity or are needed to recruit or retain employees.

6. An offer with no across the board increase would be extremely provocative and would undoubtedly lead to industrial action and set back the move to a more selective approach. The mood of most individual members of staff can best be described as resigned at present (although touchier than that in some departments) but they are certainly not ready to accept a freeze in pay. The unions are in some disarray, but some are already talking of claims of 20 per cent, and they are suspicious of the moves to selectivity. The leadership dispute in the CPSA is not helping as the moderates there are trying to demonstrate their toughness on pay in order to win votes, and the other unions will not want to appear to be less demanding. Too low a general offer might bring several of the unions together in industrial action which might be selective, concentrating on the areas where the Government is most vulnerable. This too could have substantial public expenditure costs.

7. Both staff and unions will look closely at the wider pay scene. This is not helpful. Although the Government may be able to argue that teachers are a special case, other pay settlements, in both the public and private sectors, average well above the RPI, a situation which is likely to continue into the spring. (Details

are in the annex.) The Review Body reports will, as usual be particularly important covering as they do nearly half of those employed directly by Government. No special reviews are being done this year, and the reports should therefore be on a "care and maintenance" basis. Even on that basis however, the review bodies' track record is for increases somewhere between the general level of settlements and the growth in average earnings, which suggests that their 1987 recommendations may be around 6 per cent.

8. These arguments imply that for the civil service the aim for 1987 should be a small across the board increase, combined with selective increases for particular groups of staff. At present it looks as if each of the seven unions will submit a separate claim, and have separate negotiations, which might lead to different balances between the overall percentage and the selective increases for different unions. The outcome cannot be predicted with any confidence, and much will depend on whether Ministers want an ultimately agreed settlement, or whether they will take a tougher line, hoping for some form of acquiescence from staff, even if threats of industrial action are made during the negotiations. As to the components of the settlement, our best assessment is that it would not be possible to hold the across-the-board element to substantially below the RPI which, in the crucial first three months of 1987 is likely (as seen at present) to be in the 3½ to 4 per cent range. It would certainly be right to go for substantial selective increases, within what can be afforded on running costs, and which to some extent should generate savings on running costs. A further amount of up to 1 per cent would allow for some useful managerial initiatives.

TACTICS

9. One option would be to try and reach a quick settlement to come into effect in April. This might have political attractions and could mean that the RPI during the negotiations was lower than it might be later. However, a quick settlement is likely to be a more expensive one.

10. A point for immediate decision is whether or not to commission a survey of private sector settlements from the Office for Manpower Economics (OME). Such surveys were part of the long-term proposals on pay which the Government put to the unions. These proposals were rejected by most unions, but remain on the table. Unless the Government makes concessions on the unions' sticking points - which is not recommended - they are very unlikely to be raised in the 1987 pay round.

11. However, OME surveys were carried out in 1984 and 1986, and another could be commissioned for next year. It would have the advantage of focussing attention on private sector settlements, which in the last pay round, for the first time for some years, are on the whole lower than those in the public services (see Annex), by about 1 per cent; and taking no account of "drift" (the difference between settlements and earnings is currently negligible in the civil service.) Finally, it would add moral force to the rejection of some of the wilder claims. Against this, there is the danger that another survey would be seen as a signal that comparability was becoming a major factor in determining civil service pay, and that surveys were becoming the norm - which could be very embarrassing in future years if private sector settlements continue to be high.

12. The balance of these factors depends in part on the likely outcome of a survey. Our best guess at present is that the median might be about 5¾ per cent, with an interquartile range of 5½-6¼ per cent. In practice, the Government would find it difficult to justify a settlement outside this range if they deliberately commissioned a survey, while all options would be open if there was no survey. A decision on this is needed now as work would have to start quickly if the results were to be ready for the start of negotiations. The balance of the argument is clearly against another OME this year.

CONCLUSION

13. Ministers are invited to give preliminary consideration to the general approach to the 1987 civil service pay round, and to decide now whether or not to commission an OME survey of private sector settlements.

HM Treasury
2 December 1986

ANNEX

1. This annex sets out information on past experience and current forecasts.

History

2. Settlements for the non-industrial civil service have been as follows:-

PAY ROUND	PERCENTAGE INCREASE IN RPI (Average value over pay round)	PAY SETTLEMENT (PERCENTAGE)			
		NON-INDUSTRIAL CIVIL SERVICE (1 April)	PRIVATE SECTOR NON MANUALS		
			LOWER QUARTILE	MEDIAN	UPPER QUARTILE
1982:1983	5.3	4.86	5	5¾	6¾
1983:1984	5.0	4.55	5	6	7
1984:1985	5.7	4.9	5½		6½
1985:1986	4.5	6.0	5½	6¼	7
CUMULATIVE TOTAL	22.2	21.9	22¾	26¼	30¼

3. The table attached summarises the outcome of the four pay rounds for the broad sectors of the economy.

4. Settlements in the last pay round increased slightly for the economy as a whole despite the fall in inflation that took place over the pay round. Average earnings continued to grow at 7½ per cent because of an offsetting fall in private sector overtime. Public service settlements, on average, exceeded those in the rest of the economy for the first time since the 1979-80 pay round. This largely reflects high settlements for some local authority employees (notably teachers and manuals) and staging of the previous years Review Body awards. The table also shows the contrast between public service settlements generally, and the lower settlements

for centrally-negotiated public service groups.

Prospects

5. The latest Department of Employment/Treasury estimate of the prospects for the 1986-87 pay round is set out below.

	Settlements	Earnings
Whole Economy	5-5½	6½-7
Public Trading Sector	5	6½
Public Services*	6	8*
Private Sector	5	6½

* including teachers

6. Private sector settlements are expected to fall somewhat over the forthcoming pay round reflecting the much lower inflation figure at the start of this pay round compared with the last one. Most private sector forecasters are expecting a similar fall. The CBI databank (covering mainly manufacturing) reports that settlements averaged 5½ per cent in the 3rd quarter of 1986 compared with 6¼ per cent in the 2nd quarter. Department of Employment monitoring reports a settlement figure averaging 5½ per cent in the 3 months to October 1986, which is 1 per cent below the comparable period in 1985. It is nonetheless possible that the average may fall below 5 per cent which has been as a psychological floor by many bargainers. Prospects of slightly higher inflation, continued high profitability and liquidity in the company sector, and recruitment and retention difficulties in some parts of the country which through national pay scales lead to general pay increases, can be expected to limit the extent of the fall in private sector settlements.

7. Public trading sector settlements can be expected, as usual, to follow the private sector.

8. In the public services, much depends on how far the teachers, just offered rises worth 16.4 per cent over a 15-month period (and the "formula groups - police and firemen) can be discounted as a "special case"; and whether the local authority manuals' 6.7 per cent in September can be thrown back as a consequential of the 1985-86 pay round. If these groups can be set aside, the same

downward influences as in the private sector could have effect, coupled with the relatively large settlements (compared with recent years) in 1986, to give the prospect of settlements at or under 5 per cent. But the Government has no real power to decisively influence the outcome for local authority groups.

Appendix

BASIC PAY SETTLEMENTS AND AVERAGE EARNINGS BY SECTOR (PER CENT)

	1982-83		1983-84		1984-85		1985-86	
	Settlements	Earnings	Settlements	Earnings	Settlements	Earnings	Settlements	Earnings
Whole Economy	5½	7½	5¼	7½	5¼	7½	6	7½
Private Sector	5¾	8¼	5¼	7¾	6	8¼	5¾	7½
Public Trading Sector	5½	7¼	5	7	5½	7	5¾	8¾
Public Services	5¼	6¼	5¼	7	5½(6)	5¼	6¾(71/3)	7¼
of which:								
Police, Fire, Review Bodies	8(8¼)	n/a	6¾(7½)	n/a	6(7¾)	n/a	6(72/3)	n/a
Rest of Public Services	4¾	n/a	4¾	n/a	5¼	n/a	7¼	n/a
Civil Service	4.86	5.6	4.55	5½	4.7	4.7	6	n/a

Note

Basic settlement figures indicate first year cost. Bracketed figures indicate full-year cost, where different.

MANAGEMENT IN CONFIDENCE

10 62

10 DOWNING STREET

LONDON SW1A 2AA

From the Principal Private Secretary

2 October, 1986.

NORTHERN IRELAND COMPTROLLER AND AUDITOR GENERAL

I have shown the Prime Minister your Secretary of State's minute of 1 October about the salary of the Comptroller and Auditor General for Northern Ireland.

The Prime Minister agrees that in the special circumstances of the Comptroller and Auditor General, he should be paid as a Grade 2, and that his current salary should be adjusted accordingly.

I am sending a copy of this letter to Michael Stark (Cabinet Office).

(N.L. Wicks)

David Watkins, Esq.,
Northern Ireland.

MANAGEMENT IN CONFIDENCE

MANAGEMENT—IN CONFIDENCE

Prime Minister

Agree that the N.I. C and AG should be paid as a Grade 2?

Yes

N.L.U
1-10

PRIME MINISTER

NORTHERN IRELAND COMPTROLLER & AUDITOR GENERAL

You will recall that when I minuted you on 24 September 1986 about the pay of the Permanent Secretaries of Northern Ireland Departments I referred in paragraph 4, as I had previously done in paragraph 2 of my earlier minute of 25 July 1986, to the specific question of the Comptroller & Auditor General for Northern Ireland.

2. Can I ask that you would consider this as an issue separate from that of the wider question of remuneration? This is because we are now at a very advanced stage in the preparation of new legislation which will give the Exchequer & Audit Department for Northern Ireland an independent status comparable with that of the National Audit Office. It will be necessary in that legislation to provide for a pay comparator for the Northern Ireland Comptroller & Auditor General.

3. It is the view both of the PAC and of the Public Accounts Commission, and acceptable to the Treasury, that in accordance with established principle the C&AG should not be paid at a rate lower than that paid to any of the Accounting Officers here. This would mean moving him to the Grade 2 (ie Deputy Secretary level). He is at present graded at a level intermediate between Under Secretary and Deputy Secretary.

/...

MANAGEMENT—IN CONFIDENCE

4. We had prolonged consultation with the PAC and the Commission about the most appropriate audit arrangement for Northern Ireland and I have succeeded in securing their full co-operation in discharging on a non-statutory basis, in relation to the nuts and bolts of the Northern Ireland Audit Office the functions they discharge in respect of the National Audit Office. (We could have put the arrangements on a statutory basis only by amendment of the Northern Ireland Constitution Act, which for obvious reasons I was anxious to avoid). I do not think that it would be profitable to contest the view of both bodies on the salary of the C&AG.

5. I should therefore be most grateful for your agreement to using Grade 2 as the comparator for the Northern Ireland C&AG's salary. I would also, in accordance with the recommendation of the PAC and the Commission, adjust his current salary accordingly.

6. I am copying this minute to Sir Robert Armstrong.

TK

1 October 1986

JLD

10 DOWNING STREET

1. C Powell to see

2 Note.

I told Sir Robert Armstrong of PM's decision. I will not write out. Tom King may raise it with PM on propitious occasion. N.F.A.

N.L.W.

26.9

010

~~APPTS~~ NOT APPTS

I see no reason to change the decision no

Prime Minister

Mr King has returned to the charge about making all the Permanent Secretaries in N. Ireland Grade 2s.

Do you agree to §4 in the light of this further information; OR Discuss with Mr King?

N.L.W. 24.7.

PRIME MINISTER

PAY OF NORTHERN IRELAND PERMANENT SECRETARIES

You will remember that I asked for your help over a problem that has arisen over the pay rates of half the Northern Ireland Permanent Secretaries: half of them are already on the Deputy payscale and half are paid on a rate half-way between Deputy and Under Secretary. There is no irresistible logic as to which Departments are or are not on the higher scale; nor is there real financial significance either.

2. I know that your original concern was as to how Northern Ireland, for its population, could justify that number of Deputy Secretaries. The answer in a nutshell is "direct rule". There simply is no comparison between the relative responsibilities of a Deputy Secretary grade in Northern Ireland, whose responsibilities, in the absence of any effective tiers of local government, are far more executive and comprehensive than those of their counterparts in Great Britain (including incidentally the obligation to appear before the PAC). Both Robert Andrew, my PUS, and I, with our experience across Whitehall, are absolutely agreed on this. Moreover not only is there a far greater depth of responsibility, but the range of responsibility is greater than say, Scotland, so that the Northern Ireland Block covers items representing £4.6 billion while the Secretary of State for Scotland is directly responsible for £3.9 billion. I understand that Scotland has six Deputy Secretaries, and Northern Ireland six plus one in the Northern Ireland Office for police and prisons.

5m

3. I know you attach great importance to treating civil servants fairly and expect first-class support in return. The Northern Ireland Permanent Secretaries as a group have given excellent support and strong leadership in these difficult times that we have experienced, and that is why I attach particular importance to resolving the present unfairness. It does reflect on our management to allow it to continue, it involves minimal financial considerations, and it is the right step to acknowledge the real contribution that they have all made in support of the Government.

4. I would therefore be grateful for your agreement that the Secretaries of the Departments of Agriculture, Education, and Health and Social Services, and the Chief Executive of the Industrial Development Board should in future be paid at grade 2 level. The reasons for upgrading the C and AG post, as explained in my earlier minute, are rather different, but I hope that this can also now be agreed since the publication of legislation is held up until the point has been resolved.

5. If it would help I should be pleased to discuss these matters with you.

6. I am sending a copy of this minute to Sir Robert Armstrong.

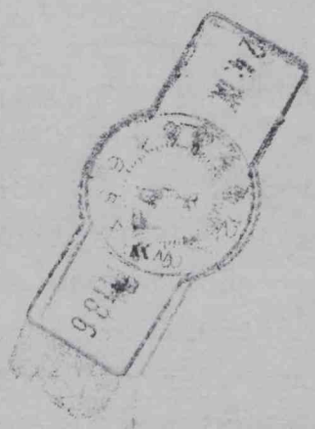
N D Ward
(Private Secretary)

for TK
(Dictated by the Secretary of State and signed in his absence)

24 September 1986

ji

Civil service: Pay + Pensions PT16



MANAGEMENT IN CONFIDENCE

10 DOWNING STREET

From the Principal Private Secretary

31 July 1986

PAY OF NORTHERN IRELAND PERMANENT SECRETARIES

The Prime Minister has seen your Secretary of State's minute of 25 July about the pay of Permanent Secretaries of the various departments in Northern Ireland.

As you may know, the Prime Minister did give some careful consideration to this issue earlier this year. She then reached the view that the payment of all the Permanent Secretaries at a Grade 2 level would be difficult to justify. The Prime Minister is very conscious of the devotion to duty shown by the officials concerned in the present ~~dangerous~~ ~~difficult~~ and trying circumstances. But she is still not convinced that six Permanent Secretaries of Grade 2 rank are justified for a province of just over one million people. ~~She still takes this view and~~ She therefore cannot agree to your Secretary of State's proposal.

I am sending a copy of this letter to Michael Stark (Cabinet Office).

N.L. WICKS

Note for the record.

Neil Ward, Esq.,
Northern Ireland Office.

I showed this draft letter, which I will not send) to Sir Robert Andrew. He would reflect on the PM's views

MANAGEMENT IN CONFIDENCE

Mr King might return to the charge on the grounds that work had justified 6 Dec Seco. No further action until if taken N10 return to this action. N.W.W. 6.8

PRIME MINISTER

PAY OF NORTHERN IRELAND PERMANENT SECRETARIES

In his minute at flag A, Mr. King has reverted to the proposal that three Permanent Secretaries in the Northern Ireland Civil Service (NICS) now paid at an intermediate grade between Deputy Secretary and Under Secretary, should be paid at the Grade 2 level like the other three NICS Permanent Secretaries. He also proposes that the NICS Comptroller and Auditor General should be paid as Deputy Secretary.

When Sir Robert Armstrong put this proposal to you in February you were firmly against it. You did not believe that six Deputy Secretaries were justified for a province of just over one million people. You also recalled that the staff concerned would have received considerable benefit from the implementation of the TSRB report. Sir Robert Armstrong in his minute at flag B says that he does not think that the case for the regrading has significantly changed since February but he hopes that you will relent and agree with Mr. King's proposals.

They are not

Do you wish:

to stick to your decision in February and turn down the proposal? Yes not

or

to agree Mr. King's proposal?

N.L.W.

N.L. WICKS
30 July 1986

B.

A086/2202

MR. WICKS

Pay of Northern Ireland Permanent Secretaries

The Secretary of State for Northern Ireland has sent me a copy of his minute of 25 July.

2. You will remember that I sent you a minute on 24 February (A086/629) on this subject. You replied the following day.

3. The only thing that has changed since then has been the Government's acceptance of the TSRB's recommendations on discretionary increments for Grades 2 and 3. As the Secretary of State says, a Grade 3 in the Northern Ireland Civil Service who was in receipt of a discretionary increment would be earning more than his Permanent Secretary, if his Permanent Secretary was one of those on the intermediate grade and not a full Grade 2. That would be a slightly invidious situation.

4. The inquiries I made before I wrote my minute of 24 February confirmed that the distinction made between the full Grade 2s and the intermediate grade causes resentment. It was not introduced until 1982 (before that they were all on the intermediate grade); and, though the differentiation was justified by sound grading principles, those who remained at the intermediate grade and not upgraded to Grade 2 felt, and have continued to feel, a sense of unfairness. That was somewhat strengthened when the Government decided to reject the TSRB's recommendation last year for a measure of differentiation among Permanent Secretaries in the UK civil service: the Northern Ireland Permanent Secretaries felt that there was a certain inconsistency in the Government's position.

5. Objectively speaking, I do not think that the case has significantly changed since February: the new argument about discretionary increments does not to my mind make a great amount of difference. But the fact that the Secretary of

State has come back on the point shows that the sense of resentment persists, and I have no doubt that it would continue to do so (and be blamed on the Prime Minister, now that the Secretary of State has himself put the proposal to her). It has always seemed to me that the best argument for making the change is that all those concerned carry the same sort of responsibility for the management of Northern Ireland departments at a time of considerable political, economic and social stress in Northern Ireland, and the same sort of risk of being seen by their compatriots as putting their duties to the British Government before their loyalties as Ulstermen. They have given, and continue to give, absolutely loyal service to the Secretary of State, despite the strains. We depend heavily on that loyalty. Removing what is seen as an unfairness will be felt as a recognition of that loyalty, and will help to strengthen it (certainly to get rid of something which could potentially weaken it). At £21,000 a year, it costs very little. On balance I hope that the Prime Minister will relent, and agree to the change which the Secretary of State proposes.

N.L.W.

ROBERT ARMSTRONG

30 July 1986

MANAGEMENT—IN CONFIDENCE

Prime Minister

PAY OF NORTHERN IRELAND PERMANENT SECRETARIES

I mentioned to you an anomalous situation that I have between Permanent Secretaries of the various Departments in Northern Ireland. Although they all have the title of Permanent Secretary three are paid at Grade 2 level as Deputy Secretaries, and four on an intermediate grade between Deputy Secretary and Under Secretary (Grade 3). There is no justification for the distinction between them and it does cause justifiable annoyance. The position is further complicated by the introduction of the discretionary increments which now means that an Under Secretary can receive, with full increments, a maximum of £40,000. On this basis an intermediate level Permanent Secretary would be paid less than any Under Secretary reporting to him who gets discretionary increments.

2. I would be grateful therefore for your agreement that the three Permanent Secretaries for the Department of Education, DHSS and the Department of Agriculture and the Chief Executive of the Industrial Development Board should be classed as Grade 2. I would not propose to change the position of the Chief Medical Officer or the Parliamentary Draftsman who have previously been classified with the Permanent Secretaries. There is one other post that does relate, the Comptroller and Auditor General for Northern Ireland. The PAC and Public Accounts Commission have both recommended and Treasury agree that he should not be paid at a rate lower than any of the Accounting Officers. We have had a difficult time with these bodies in setting up the Northern Ireland audit arrangements, and I do not wish to have an argument with them now about this and so I recommend that the Comptroller and Auditor General is also fixed at Grade 2.

MANAGEMENT—IN CONFIDENCE

3. As you will see, my recommendation has minimal financial consequences (and such small consequences as they are have to be carried by me within the Northern Ireland Block) but the present anomaly has led to justifiable complaint which should be resolved. The Permanent Secretaries have played a vital part in supporting my efforts to prevent serious problems arising in Northern Ireland in recent months, and I would be grateful for your agreement to this change.

4. I am copying this minute to Sir Robert Armstrong.

N D Ward
(Private Secretary)
for TK
(Approved by the Secretary of State and signed in his absence from London)

25 July 1986

011/2769

CCBG

CONFIDENTIAL



Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Kenneth Baker MP
Secretary of State for Education and Science
Department of Education and Science
Elizabeth House
York Road
London
SE1 7PH

NBPM

21 July 1986

Dear Kenneth,

CIVIL SERVICE PAY SETTLEMENT - IMPLICATIONS FOR RESEARCH COUNCILS

I am replying to Sir Keith Joseph's letter of 20 May to Nigel Lawson. I have also seen your letter of 3 July to Peter Brooke making some of the same points.

Lower rather than higher pay settlements are always desirable. But we decided in MISC 66 that this year the basic Civil Service pay settlement of 6 per cent was appropriate, notwithstanding the PES factor that had been adopted. 6 per cent was not out of line - indeed if anything a touch below - what was happening elsewhere, and in budgeting for the current year the Research Councils should have been assuming something of this order, given that they must have expected that their pay link with the Civil Service would bite.

The 8 per cent increase for scientists was a little higher, of course, but responded to our expressed wish to treat these as special in view of the recruitment and retention problems which we were experiencing. It must be of some help in relation to the brain drain, about which Keith was concerned. By the same token the Research Councils benefit. I cannot accept that the settlement has a devastating effect on the science base, or on morale in particular. The contrary is surely true. The fact that scientists are benefiting from a larger pay increase than for the Civil Service generally must do something to improve their morale, and in any case I do not think I can accept that there is some difference between "paying scientists more" and "buying more science". Attracting and retaining good quality scientists is part and parcel of the latter. And if the pay link with the Civil Service gets in the way, that is something which we can all look at, as indeed we are now doing.

CONFIDENTIAL

CIVIL SERVICE - Pay. Pt. 16

CONFIDENTIAL

I do not therefore see a case for compensating the Research Councils in the way that Keith describes. Nor do I think it is fair to suggest that the pay increase removes the benefit of the additional £15 million per year which the Councils got last autumn.

More widely, I have to say that it is of the utmost importance to adhere to the Government's agreed intention that the costs of this Civil Service pay settlement should be absorbed within existing provision. I would not feel justified in exempting the Research Councils from this requirement, particularly in relation to a settlement which is not without advantages from their point of view.

I am copying this letter to the Prime Minister.

Yours ever,

JOHN MacGREGOR



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MANAGEMENT IN CONFIDENCE

10 DOWNING STREET

From the Principal Private Secretary

27 June 1986

OFFICIAL VISITS OVERSEAS BY MEMBERS OF NO. 10 STAFF

I have been considering here whether to tighten up the controls in the authorisation of official visits overseas by members of No. 10 staff, for instance by asking that such requests should come to me. But I have decided not to pursue this since most of our visits abroad follow directly from the Prime Minister's own visits abroad. If your people ever have reason to wonder about the need for a visit, please ask them not to hesitate to be in touch with me.

N.L. WICKS

J.W. Stevens, Esq.,
Management and Personnel Office.

MANAGEMENT IN CONFIDENCE

CONFIDENTIAL

File JA cubg

10 DOWNING STREET

From the Private Secretary

9 June 1986

Dear Rachel,

CIVIL SERVICE PAY 1986

The Prime Minister was grateful for the Chancellor's minute of 4 June reporting the outcome of the Civil Service pay round this year.

The Prime Minister agrees with the Chancellor that the outcome is on the whole satisfactory. She looks forward to seeing the Chancellor's further proposals on how to get increased flexibility into the system and on the future handling of the long term pay initiative.

I am copying this letter to the private secretaries of members of MISC 66, Stephen Boys Smith (Home Office), Rob Smith (Department of Education and Science), Robin Young (Department of the Environment) and Michael Stark (Cabinet Office).

Yours,

David.

(David Norgrove)

Mrs. Rachel Lomax,
HM Treasury.

CONFIDENTIAL

GA

10 DOWNING STREET

Prime Minister 2

This has gone smoothly and as predicted, and it is in fact a pretty good outcome.

DLV
6/6.

RA/007

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

PRIME MINISTER

CIVIL SERVICE PAY 1986

I write to let you know that following your approval of the proposals I set out in my minute to you of 21 April the 1986 Civil Service pay round is now effectively over. Unions representing the vast majority of staff have accepted our basic 6 per cent offer. The exceptions are the FDA, with whom we hope to come to an accommodation on this figure shortly; and the Prison Officers. (So far as the Prison Officers' Association in England and Wales goes resumption of negotiations awaits their formal calling off of the current industrial dispute. We are able to negotiate with Scottish POA and expect to pass on to them quite shortly the general civil service pay settlement.) We are also still to settle London Weighting for 1986, and officials are in touch.

On the whole this is satisfactory. A basic 6 per cent with some addition in areas of special difficulty is a touch higher than we might have wished, but on the other hand the settlement has been without any threat of industrial action or demand for arbitration, and has been achieved relatively quickly. Rank and file staff I think recognise that compared with the past two or three years we are a little nearer, though still below, the going rate outside and this should pay some dividends. I have recognised that the outcome may give some colleagues trouble with their running costs limits, but John MacGregor will handle any approaches in accordance with the line set out in my minute of 21 April, which Cabinet endorsed on 1 May.

Looking to the future, there are two areas I want to think about before we get to 1987. First, there is the question of getting increased flexibility into the system, and second, there is the question of where we go on our long-term pay initiative. I would expect to put proposals to you and colleagues in MISC 66 in due course.

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

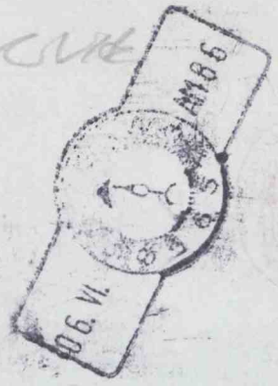
N.L.

4 JUNE 1986

CIVIL SERVICE

PAY

PTs



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CC/86

MINISTRY OF DEFENCE
WHITEHALL LONDON SW1A 2HB

Telephone 01-218 6621 (Direct Dialling)
01-218 9000 (Switchboard)

Minister of State
for Defence Procurement

D/MIN/DGT/22/2

2 June 1986

mb Prime Minister 4

The Treasury are aiming for a 6% settlement with Civil Service industrials. No need to read these letters. DEV 3/6.

Dear Nigel,

attached

On behalf of George Younger, I reply to your letter dated 29th May.

Broadly I agree with your proposed approach. I acknowledge that inflation is dropping but given the recent history of pay increases for industrial civil servants and the pattern of outside pay movements, it is unrealistic to expect the industrials to accept less than the 6% which non-industrials secured in their main settlement. There are advantages in a quick decision and I therefore suggest that officials should not spend an excessive amount of time trying to persuade the Unions to settle for less.

I agree with the proposed shape of the settlement. I also agree that discussions on restructuring can continue but I am bound to say that our major line managers are unenthusiastic about the ideas which have emerged to date. I hope that a more acceptable formula will come out of continuing discussions.

/ I am ...

The Rt Hon Nigel Lawson MP

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I am copying this letter to the Prime Minister, other members of E(PSP) and to Sir Robert Armstrong.

Yours,
David.

Trefgarne

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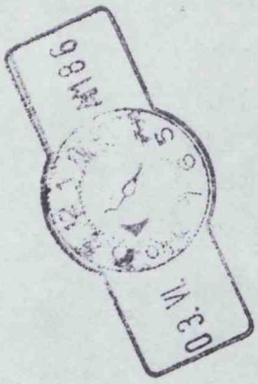
03.VI
1989

REGIONAL PAY VARIATIONS: SUMMARY

For a given occupation, pay rates and earnings vary little between different parts of the country.

2. The pervasive influence of national pay bargaining is an important reason for this, although there are other factors (paragraphs 3-8). Centralised pay bargaining leads to uniform national pay rates (paragraphs 9-14), and also to fairly uniform earnings levels and earnings increases across the country for a given occupation (paragraphs 15-22). To the extent that those pay rates reflect labour market pressures in London and the South-East (the tightest labour markets) their spilling over into other regions means pay above market clearing levels in these regions and lost job opportunities (paragraph 23).

3. Regional pay differences are narrower than regional unemployment differences and have not been altering to reflect regional unemployment levels (paragraphs 24-25). This means that employers have no incentive to move their businesses to high unemployment areas as labour costs are almost as high as in London and the South-East.

4. Regional pay differences are also narrower than the differences in housing costs. A potential new entrant into the housing market in London and the South-East faces very high costs, that more than offset the slightly higher earnings levels that he might expect in these regions compared with the rest of the country. As a result unemployed people are deterred from moving to regions where long term job prospects are better (paragraphs 26-32).

5. Greater regional pay variation would add to employment, provided that it happened because of a lowering in wage growth in high unemployment areas relative to the rest of the country. There is no case for a general increase in wage growth in low unemployment areas: as there is no evidence of a general labour shortage anywhere in the country.

6. Lower relative wage growth in high unemployment areas would create jobs by increasing demand for goods and services produced in the region. But, this effect is likely to be relatively weak for a fall in regional rather than national pay. Of greater importance is likely to be the improved competitive position of labour in that region, encouraging substitution of labour for capital and attracting new businesses to the region. Some of these jobs will be at the expense of other regions. But, overall there should be a gain to employment following a regional reduction in pay, although it will probably take some time to come through (paragraphs 33-45).

7. The scope for Government action to encourage greater regional pay differentiation varies between different sectors of the economy. In the private sector (where some companies and industries have recently abandoned central bargaining) there is exhortation, which may help change the climate slowly, and the possibility of bringing about changes in institutions that inhibit greater geographic pay, such as national pay agreements. These might be considered a restrictive practice and subject to legal review. However, these agreements have some benefits and any moves would need careful consideration. The Department of Employment are considering this, along with other changes in employment law, and will be putting a paper to E(CP) Committee (paragraphs 47-51).

8. As far as public trading is concerned no Government action, apart from the above, seems appropriate (paragraphs 52-54).

9. The potential for action in the public services varies from group to group:

a. Police Pay arrangements to be reviewed after the 1987 settlement; any changes can be introduced from the 1988 settlement. Government representatives will take part in the review and Government has a say over the outcome (paragraph 59).

b. Teachers The Education Bill gives the Secretary of State for Education powers to determine their pay and the scope for geographic variations in one of the factors that he can ask the Advisory Committee to consider when making recommendations (paragraph 60).

c. Other Local Authority Groups Less Rate Support Grant could be provided to areas where pay could be reduced relative to the national average. This would require controversial legislation and is unlikely to be effective (paragraphs 61-64).

d. Review Bodies Regional pay variation is not appropriate for armed forces or top salaries. The Nurses Pay Review Body has been asked to consider the scope for regional pay in its 1987 recommendations. It could also be considered for Doctors and Dentists (paragraph 65-66).

e. Civil Service Ministers are receiving a separate report (paragraphs 67-68).

f. Health Service The first steps have been taken with computer staff and greater geographic pay may form part of this years pay restructuring for the administrative, clerical and secretarial grades. If it is a success for them it could be extended to other NHS groups (paragraphs 69-72).

10. Geographic variation in pay will need to be implemented under central control to prevent the new systems simply leading to upward pay drift in some regions with no offsets elsewhere. While such systems could imply eventually greater local delegation of pay determination this could not be contemplated until there were effective financial management arrangements to keep local costs under control. If greater local pay variations could be achieved there would be worthwhile management gains in the public services and it may encourage the rest of the economy to follow suit (paragraphs 73-74).

CONFIDENTIAL

REGIONAL PAY VARIATIONS

INTRODUCTION

This paper considers how much pay varies between regions, the effect of greater pay variation on employment, and whether Government action could increase regional pay variations.

2. The paper is set out as follows:

Section A considers the extent to which bargaining about pay rates takes place at national level (paragraphs 3-8);

Section B examines how far this leads to uniform pay rates in the same occupations throughout the country (paragraphs 9-14);

Section C looks at the extent of variation in earnings between and within regions (paragraphs 15-23);

Section D compares regional variations in pay with regional variations in unemployment (paragraphs 24-25);

Section E contrasts regional variations in pay and the cost of living (paragraphs 26-32);

Section F discusses the likely effects of greater regional variation on employment (paragraphs 33-45);

Section G considers what action the Government could take to encourage greater regional variation (paragraphs 46-74);

A. NATIONAL PAY BARGAINING

3. The starting point is the forum in which pay is determined. About 70 per cent of manual workers and 60 per cent of non manual workers have their pay determined through collective agreements. The pay of the rest, mainly employees of small firms, is determined by their employer. The proportion of the working population covered by collective agreements, although still substantial, has been falling in recent years. But, this does not necessarily mean that the influence

of collective agreements is less. In many cases pay for workers not covered by collective bargaining will be influenced by pay rates set for comparable workers in collective agreements.

4. Table 1 sets out some information about collective bargaining arrangements from the 1985 New Earnings Survey. The NES divides these arrangements into three categories:

a. National agreements, where pay is determined following bargaining between representatives of companies or organisations and the appropriate trades unions.

b. National and Supplementary Agreements, where pay rates and conditions negotiated at national level to establish a baseline which is supplemented by further local bargaining.

c. Company or plant bargaining. In some companies, with units all over the country this amounts to national bargaining. These companies are not separately identified and it is therefore likely that Table 1 understates the extent to which pay is negotiated in national forum, defined as either industry or company wide agreements.

5. The figures in Table 1 are that pay rates for over one-third of manual workers result solely from national agreements, and a further fifth by a process that includes a national bargaining element. Pay rates for almost half of non-manual workers are negotiated through national agreements only, and for over half by a process that includes a national agreement.

6. Collective bargaining over pay in national forums, is more prevalent in the public than the private sector. A recent survey commissioned by the Department of Employment (Workplace Industrial Relations Survey), has provided some detail about pay negotiating arrangements. It found that slightly less than half private sector employers determine pay through collective bargaining, compared with 95 per cent of public sector employers. Of those covered by collective bargaining 75 per cent of private sector establishments determine pay by a process that includes national bargaining. The comparable figure for the public sector is 96 per cent. [Table 2 sets out the details.]

7. National pay bargaining is less prevalent in the private than the public sector. But it does not necessarily follow that it has less influence over actual pay rates. Companies that are not parties to national pay agreements may nevertheless implement the national pay rates determined in the agreement covering their own industry or base their annual increases on those arrived at in the national agreement. This could happen in a number of ways. There may be a contractual or a custom and practice link that the employer routinely implements. Or, trades unions in the particular company may regard the terms of the national agreement (that they could have helped negotiate) as providing a minimum or target objective in the negotiations. We have no evidence of the extent of this wider influence - apart from the 2.25 million workers covered by legally building rates set in Wages Councils - but we suspect it is substantial.

8. National pay bargaining, in itself, need not lead to uniform pay rates. But, there will be an obvious tendency towards them. The "rate for the job" concept is very important to trade unions. Employers have a more obvious interest in negotiating regionally differentiated pay scales because of different recruitment and retention pressures in different parts of the country. That they do not do so probably reflects a mixture of inertia, the greater effort involved, and trades union opposition (either actual or perceived).

B. NATIONAL PAY SCALES

9. As expected, national pay agreements do usually produce uniform national rates. The only widespread exception is London Weighting payments. Within London there is some further variation in some cases. For example, the Civil Service has 3 zones for payment of differential allowances and some retail chains pay higher London allowances for West End stores. There are also some differences in the definition of "London" with some banks and insurance companies extending outer zone allowances as far as 22 miles from Central London.

10. Apart from London Weighting the almost universal pattern in national pay agreements is to pay uniform national rates. We have examined the pay agreements covering about 5¼ million public and another 4 million private sector employees. Apart from an allowance in the Civil Service for a very small number of employees working on "distant islands" and a few insurance companies and retail chains paying a "large towns" allowance we have not discovered any other geographic variations in pay rates. In particular there are no cases of higher pay rates in the South East (excluding London) compared with the rest of the country, despite

this region having the lowest rate of unemployment in the country, including London.

11. Table 3 and 4 set out the details for the public and private sectors respectively. In the public services almost all 5¼ million workers are covered by uniform pay scales, with the exception of London Weighting. Some nationalised industries do have local variation in pay rates eg steel. However, these industries are concentrated in particular parts of the country and are not found at all in others. Five major nationalised industries employing about 600,000 out of the 1 million employed in all nationalised industries, provide utilities and services on a nationwide basis and have employees throughout the country. They are paid on national pay scales determined by centralised pay bargaining.

12. We do not have comprehensive information about private sector pay arrangements but Department of Employment have put together the information in Table 4 from their monitoring data. It considers examples of national pay agreements affecting 4 million workers in the private sector. They fall into three groups:

a. 878,000 whose pay is determined by national agreements with little or no secondary bargaining. As a result there is little regional variation in pay except for London Weighting and odd cases of territorial allowances.

b. 1,785,000 whose pay is determined by national agreements and where there is also some secondary bargaining and therefore some regional variation in pay levels.

c. 1,470,000 whose pay is determined by national agreements backed up by significant secondary bargaining and, as a result, there are some significant variations in pay levels.

13. In the case of industrials and companies falling into category a. above pay rates will equate quite closely to earnings, excluding overtime. Uniform national pay rates therefore mean uniform earnings. Industries and companies falling into categories b. and c. will show greater differences between pay rates and earnings. However, these will not necessarily mean regional variations in earnings levels. Variations at the level of the individual firm may not have any particular regional pattern. This is possibly the reason why data from the New

Earnings Survey (discussed below) shows so little regional variation (outside of London) in average earnings.

14. National pay agreements also influence the growth in average earnings even in industries where there is significant local bargaining. One example of this is the National Engineering Agreement covering 1.3 million workers in the engineering industry. Whilst there is considerable local pay bargaining at company and plant level the increase in minimum national rates influences the increase in total earnings. This effect is shown by the small extent to which increases in average earnings have varied on a regional basis [see Table 7].

C. REGIONAL VARIATIONS IN EARNINGS

15. Uniform national pay rates do not necessarily imply uniform earnings. There are several components of earnings besides pay rates such as overtime, shift and bonus payments. And, the national pay rates are topped up in some industries and companies by locally agreed supplements. So it is possible for uniform national pay rates to exist alongside considerable regional variation in earnings. The TUC argued at the December 1986 NEDC meeting that this was the position and presented a paper with statistics purporting to prove this.

16. It is difficult to draw conclusions from the available data. Ideally comparisons should be between people in occupations with identical "job-weights" in the different parts of the country eg clerks in Maidenhead and Merseyside doing the same types of jobs, bricklayers in Reading and Newcastle with the same degree of skill.

17. The only data available in precisely this form comes from organisations with plants and offices in different parts of the country. A uniform grading structure within the organisation then allows job for job comparisons between different parts of the country to be made. In these cases regional earnings differences are very small and reflect regional differences in overtime and "add-on" payments rather than local variations in pay rates. As sections A and B established this is because such organisations - typically public services, nationalised industries, banks and retail chains - negotiate pay centrally and those negotiations lead to uniform national rates. However, there is no data that directly establishes the regional pattern of "going rates" for workers in the same occupations but in different companies and industries.

18. Another problem with the data is that it is only possible to produce reliable figures at the Economic Planning Region level. Ideally we would like to compare earnings variations between different local labour markets. Identifying what constitutes a local labour market is difficult but Economic Planning Regions are probably too large to constitute a local labour market, except perhaps in the case of London. Going down to the level of local labour markets (even if they could be satisfactorily identified) is not possible with existing data. The data that does exist covers Regions which will comprise several local labour markets with substantial overlap between them. It is a reasonable assumption that regional earnings data will be representative of the region although there will also be variations within the region.

19. Despite the data shortcomings there are two pieces of evidence from the New Earnings Survey, which support the conclusion that there is little regional variation. First, there is some information about regional differences in groups of occupational categories. Most of the occupational groups are defined widely and will include low and high paid categories within them. Thus the variations within NES occupational categories will not just reflect regional earnings differences for jobs of the same type but regional variations in the type of occupations.

20. However, there are a few NES occupational groupings which contain a more homogenous set of jobs and where differences in job types between regions may not dominate the overall differences. Table 8 sets out some examples. The general pattern is that excluding London (where London Weighting is usually paid) the spread between the highest and lowest paid region is around 10 per cent.

21. A second approach is to look at regional variations in aggregate average earnings. Tables 5 and 6 set out regional differences in 1985 and 1986 in average hourly earnings excluding overtime working. This data includes variations resulting from the different regional mixes of occupations and industries and so almost certainly exaggerates the extent of regional variation in average earnings for a given occupation. If London is excluded the spreads between the highest and lowest regions are as follows:

	Highest Region as Percentage of Lowest	
	1985	1986
Male manuals	110.0	105.6
Male non-manuals	111.5	110.3
Female manuals	106.4	106.4
Female non-manuals	110.9	107.7

22. Although indirect the evidence is fairly conclusive that regional variations in pay rates and earnings for a given occupation are small. There is also clear evidence that this picture is not changing much. Table 7 sets out the percentage increases in average hourly earnings excluding overtime in different regions between 1980 and 1986. There is little difference in the rate of increase throughout the country over this 6 year period. This is further indirect evidence of the influence that increases in national pay rates, negotiated in national agreements, have throughout the country, including in companies and plants that are not formally covered by them. The national agreements set "going rates" of increase which are then applied to a large degree in other establishments throughout the country.

23. To the extent that these national rates are set in the light of recruitment and retention considerations (and pay bargaining reflects many other factors), the tendency will be to reflect recruitment and retention pressures in the tightest labour markets ie London and the South-East. These pay rates may be appropriate for those regions but they will spill out to the rest of the country, where they are probably excessive in relation to the local labour markets. The result is lost job opportunities in these regions. These effects will be greatest in those organisations and industries where there is only national bargaining. Where there is greater scope for supplementary bargaining at local level the problems may not be so great. The national pay agreements may set minimum "bedrock" rates with local recruitment and retention difficulties dealt with in local bargains.

D. REGIONAL VARIATIONS IN UNEMPLOYMENT AND COST OF LIVING

24. Regional pay differentials are narrower than regional differences in unemployment. Tables 5 and 6 show the comparisons in 1985 and 1986. While average earnings in the highest paid region (excluding London) are about 5% to 15% higher than in the lowest paid region, the unemployment rate in the North

is more than double the unemployment rate in the South-East. Furthermore the small differences in average earnings do not correspond with the differences in unemployment. For example, male manual workers in the North have the highest average earnings anywhere outside London while the North also has the highest unemployment rate in Great Britain.

25. There is no presumption that an x% earnings differential between regions should be automatically associated with an x% difference in umemployment rates. However, if labour markets were working properly one would expect relative wage levels to adjust to differences in the relative supply of labour. As Table 7 demonstrates this is not happening to any extent. Excluding London the rate of changes in earnings between 1980 and 1986 has been fairly constant between regions despite consistently higher and increasing unemployment in some regions than others. This pattern, of relative wages not adjusting to differences in unemployment rates, is consistent with evidence of a weak and slow acting relationship between average earnings and aggregate unemployment.

26. Getting information about regional relative price levels is difficult. Regional versions of the Retail Price Index do not exist and anyway the RPI measures price changes not levels. There is some information about differences in regional price levels from the information published by "Reward Regional Surveys", a private sector organisation.

27. Some data from RRS is summarised in Tables 9 and 10. It can be seen from Table 9b that excluding housing costs regional variations are small. The difference between the most expensive regions (London and the South-East) and the cheapest (North) is about 5 per cent.

28. The problem is making allowances for housing costs. Within the same region they vary enormously depending upon the circumstances of households. Housing costs for council tenants depend on the level of council rents and rates. For owner occupiers, costs will not only depend on the size and purchase price of their house and local authority rates but on the amount of outstanding mortgage debt. The current level of most peoples mortgage, for a given house size, largely reflects when they bought it. Thus there is considerable variation in housing costs, even between households occupying dwellings of similar size. Recent purchasers will have high costs, because of a mortgage based on current house prices. Those who bought their house some years ago will have mortgage costs based on earlier, and much lower, house prices. Some will have paid off

their mortgages completely. And housing costs for council tenants will depend greatly on the policies of their local authority.

29. This great variety of household circumstances and therefore housing costs makes it very difficult to make regional cost of living comparisons. The approach adopted by Regional Reward Surveys is to look at the differences in housing costs experienced by specified households. Table 9c sets out regional variations in the housing costs of five specimen households with different types of tenure and house. Table 9a includes those housing costs with the other elements of the cost of living to draw up regional cost of living indices.

30. The extent of the variation between regions depends crucially on the relative housing circumstances considered. The cost of living for Category A households (council tenants, 3 bedroom semi-detached) is 7 per cent higher in London and 2½ per cent higher in the South-East than the UK average. The variations between regions are slightly less than the variations in average earnings, implying a more or less constant standard of living for such households with one person on average earnings across the country.

31. However, this pattern changes considerably when households with mortgages are considered. Tables 9a and 9c show that the larger the house type and the larger the percentage mortgage considered the greater the regional variation in the cost of living. These variations exceed variations in average earnings for households in 3 bedroom terraced, semi-detached and detached houses with average sized outstanding mortgages (68 per cent is around the national average). The implication is that where such households are dependent upon one person receiving average earnings, those in London and the South-East have higher earnings but lower living standards than their counterparts in some other regions. The table below sets out comparisons for one such household type (a 2 adult, 2 child family in a 3 bedroom semi-detached house with the average mortgage advance) of earnings and living standards alongside relative unemployment.

REGION	AVERAGE EARNINGS (April 1986) Male Manuals	Male Non-Manuals	COST OF LIVING*	STANDARD OF LIVING Male Manuals	Male Non-Manuals	UNEMPLOYMENT (April 1986)
LONDON	113.1	120.2	129.0	87.7	93.2	74.3
SOUTH-EAST (exc LONDON)	99.0	99.6	110.8	89.3	89.9	69.8
EAST ANGLIA	95.2	91.6	98.8	96.4	95.0	82.4
SOUTH WEST	95.1	92.0	98.9	96.2	95.6	89.7
WEST MIDLANDS	98.6	92.7	89.8	109.8	103.2	114.0
EAST MIDLANDS	97.5	90.3	88.3	110.4	102.3	94.8
YORKSHIRE & HUMBERSIDE	97.8	91.1	88.1	111.0	103.4	116.2
NORTH-WEST	100.0	94.2	93.5	107.0	100.7	119.8
NORTH	100.4	92.3	87.9	114.2	105.0	140.4
WALES	98.3	91.4	92.2	106.6	99.1	127.2
SCOTLAND	98.8	98.0	102.6	96.3	95.5	116.1
UK	100.0	100.0	100.0	100.0	100.0	100

* Based on 2 adult, 2 child family in 3 bedroom semi-detached house with average advance (ie 68 per cent).

32. This pattern has important labour market implications. Pay rates and average earnings vary little across the country. Their levels and rate of increase do not reflect regional differences in the supply of labour as measured by unemployment rates. Thus employers have little incentive to relocate in high unemployment areas. Unemployed workers face high costs in moving to areas of lower unemployment, where they would have better job prospects. Mostly they will not qualify for council housing and there is virtually no privately rented accommodation available. House prices are so much higher in London and the South-East, as Table 10 demonstrates, that they are unlikely to be able to afford either the down payment or to service the mortgage in its early years. Indeed the table in paragraph 31 probably understates the extra costs of moving South because the mortgage advance required to buy a property first-time in the South is probably well above the 68 per cent average mortgage.

E. REGIONAL PAY VARIATIONS AND EMPLOYMENT

33. Would greater regional pay variation lead to more jobs? If so, would the extra jobs created in the high unemployment regions by lower pay represent a net increase in jobs in the economy as a whole or simply redistribute the same amount of jobs more equally between regions?

34. The Treasury paper, "The Relationship between Employment and Wages" of January 1985 examined the nature of the pay - employment trade-off. The analysis was in terms of the trade-off at the national level but, with some qualifications, it also applies at regional level.

35. The basic premise is that there is an inverse relationship between real pay and employment, provided that labour is not in short supply. If there is a labour shortage higher real pay will increase employment by attracting into the labour force people who prefer leisure to work at current wage rates. But there is no general labour shortage in any UK region at present. (A recent study by the Department of Employment and Manpower Services Commission, presented to the November NEDC meeting concluded that most vacancies in all regions could be filled from within the region, perhaps after some training.) There are some shortages of particular types of skilled labour, which require more training. Higher pay in those skills may be necessary to get people to undertake the necessary training but this should not spill over into a general increase in wages (which would reduce jobs overall) but should increase differentials for the skill in question.

36. Given that labour is not in short supply in any region the trade-off between pay and employment at regional level operates through reducing relative pay in high unemployment regions. In practice this would probably have to be achieved by reducing the rate of increase in wages in high unemployment regions compared with the rest of the country.

37. In principle the same factors that lead to an increase in employment at national level when pay falls should operate at regional level. Initially lower wages will reduce demand for goods and services by consumers. This will reduce employment. The more that local employment depends on local demand the greater the initial reduction. Demand for local services eg hairdressers, restaurants, which depend mainly on custom from local wage-earners, for example, will be reduced initially.

38. But, a number of factors will offset this. On the demand side of the equation, companies, experiencing lower costs and higher profits, will spend more. Lower wage costs should allow for more spending on goods and services by the public services within existing financial provision. Eventually lower costs should feed through into lower prices, which stimulate demand, enabling firms to increase their output and, with a lag, employment. This process will be assisted if the Government maintains the same financial framework and allows the lower demand for money, following initial lower prices, to feed through into lower interest rates, thereby boosting demand. The Chancellor made it clear that this is what would happen when he said that the Medium Term Financial Strategy was a guarantee against deficient as well as excess demand. The supply side will also be improved as companies use some of their higher profits to boost spending in areas that will improve their competitive position eg research and development, marketing.

39. The extent to which the initial dampening effect of lower wages on demand will be offset by these factors depends on the "openness" of the region's economy. The greater its "openness" (ie the more it trades with other regions and other countries) the greater the extent to which the lower prices and higher profits will boost output and employment and offset the loss of business for local services.

40. It is probable that most of the employment benefits will arise from the greater competitiveness of labour in the region. There will be a substitution of labour for capital within existing output levels. The lower labour costs will encourage existing businesses to migrate and new businesses to locate there rather than elsewhere in the country. This could apply in both the public and private sectors and provide a managerial justification for the Government to transfer more functions out of London to the regions. These extra jobs will, of course, be at the expense of jobs or job opportunities in the rest of the country.

41. Estimating the net employment effects of lower pay in particular regions is not possible without detailed information concerning the structure of the region, and especially the extent to which it trades with other regions and countries. We are not aware of any detailed regional models that would enable such calculations to be made. It is probable that the gains from higher demand in the region would be less than those experienced following an equivalent reduction in wage costs occurring at national level. The initial withdrawal of demand

resulting from lower wages would be concentrated in the particular region. However, the later beneficial effects on demand from lower prices, higher profits and lower interest rates would be spread throughout the economy. The region with lower wages would, of course, share in these benefits but they would take some time to compensate for the initial demand reduction. The Government could help speed things up by concentrating the demand expansion in the region by using the savings on public service wages to finance extra spending in the region.

42. In practice, it seems likely that most of the benefits to regional employment would arise through firms moving to or expanding in the low paid regions compared with the higher paid regions and substituting cheaper labour for capital. Obviously these effects could take longer to come through than the smaller demand effects.

43. The answers to the questions posed in paragraph 34 are as follows:

a. Reducing pay in a region should eventually increase employment in that region.

b. The influences will be twofold. First, the demand effects of lower pay should increase jobs in the region and, to some degree, at national level but after an initial fall in employment in the region.

c. Second, the greater competitiveness of labour in the region compared with labour in the rest of the country and capital, will increase regional jobs in the long term. Some, but not all, of these jobs will be at the expense of job and job opportunities in the rest of the country.

Regional Pay and Social Security

44. Lower regional pay will increase employment provided the new jobs are taken up. Reducing pay relative to social security benefit levels might worsen the "unemployment trap" for some potential workers and discourage them from taking up jobs. There is no evidence to believe that this is likely to be a problem but the extent of the "unemployment trap" is currently being considered at official level.

Achieving Greater Regional Pay Differentiation

45. In principle greater regional pay variation could be achieved through three routes:

i. An increase in earnings growth in low unemployment areas relative to unchanged rates of earnings growth in higher unemployment areas. Greater regional pay variation would have been achieved by increasing average earnings growth nationwide. Given the earlier conclusion that there are no general labour shortages in any regions, this would simply reduce employment.

ii. A reduction in earnings growth in high unemployment areas relative to unchanged rates of earnings growth in lower unemployment areas. Greater regional differentiation would result in a reduction in average earnings growth nationwide. This should increase employment (see paragraphs 33-43).

iii. An increase in earnings growth in low unemployment areas balanced by a reduction in earnings growth in high unemployment areas. The result would then be greater differentiation within an unchanged nationwide average earnings growth figure. Unless the increase in low unemployment areas reflected a targetted response to specific skill shortages then jobs lost in these areas would offset jobs created in high unemployment areas.

G. GOVERNMENT ACTION

46. Is there any scope for Government action to increase regional pay variations? In considering this issue it is best to look at the private, public trading and public service sectors separately. It needs to be recognised at the outset that securing such changes will be difficult. The danger is that their introduction would lead to extra overall costs if the new flexibility simply leads to higher pay in London and the South-East with no offsets elsewhere. The objective must be to get relative pay down in the high unemployment regions without increasing it in the rest of the country.

Private Sector

47. About 15 million out of an employed labour force of 21½ million are private sector employees. This Government's general approach to private sector pay has been that it is a matter for employee and employer to settle without Government interference. Ministers have set out general views about the factors that should be taken into account in settling pay and have expressed views on the overall level of pay settlements. A number of changes to employment law have also been made, affecting the framework within which pay bargaining takes place. Some, such as reform of Wage Councils, and abolition of the Fair Wages Resolution and Schedule 11 of the Employment Protection Act have removed the statutory backup for some aspects of uniformity of pay throughout the country. However, Ministers have avoided any suggestion of interference in individual negotiations.

48. Assuming that Ministers do not wish to become more interventionist in private sector pay matters the options are general exhortation, financial incentives, and reform of pay bargaining arrangements. Exhortation might change the climate and eventually lead to greater variation but the results will be slow and difficult to discern. (There is some evidence that the climate is already changing. In recent months a few companies have decided to abandon national pay bargaining in favour of plant bargaining eg Lucas Industries. Others have pulled out of national organisations negotiating pay for their industry eg Midland Bank. And, some of these organisations have folded leaving it to individual companies to determine pay themselves eg Newspaper Publishers Association for national newspapers and Newspaper Society for provincial journals.) The Chancellor ruled out financial incentives, such as geographically differentiated national insurance contributions in his Financial Times interview of 5 January 1987.

49. The Government could try to change the institutions that currently inhibit geographic pay variation. Section B established that one of the reasons for uniformity in average earnings throughout the country was the widespread existence of centralised pay bargaining leading to national pay rates. It is arguable that the banding together of groups of companies to negotiate pay rates for all workers in all their establishments inhibits competition in the labour market and constitutes a restrictive practice. Companies are not allowed to engage in restrictive practices such as price fixing in the product market so why should they be allowed to do so in the labour market.

50. On the other hand, there are sometimes advantages in having pay determined in a national forum. It can strengthen central cost control by preventing leapfrogging between different regions and the proliferation of local bonus schemes etc. Some companies will find it more economic to negotiate pay as part of a larger group, and share the administrative and research costs of negotiation, than to establish their own arrangements. [The reason the Government decided to retain and reform Wage Councils, rather than abolish them, was because many employers responding during the consultative process said they considered them the most convenient way of settling pay of all the alternatives they had considered.] There is also the issue of whether national pay bargaining creates uniformity in pay or simply reflects deeply ingrained feelings of fairness and support for "the rate for the job" concept. Breaking up national pay bargaining arrangements may not therefore be an unmixed blessing.

51. E(CP) Committee considered on 15 December 1986 the general issue of future competition policy. The Department of Employment was asked to prepare a paper on possible measures in the field of employment law and this issue can be considered further in that context. The justification for the continued existence of Wages Councils, which currently set national minimum wage rates for 2¼ million workers could also be considered again, although the decision not to abolish them in 1986 makes early action in this direction unlikely.

Public Trading Sector

52. Like the private sector, the Government does not get involved in detailed pay negotiations, although it gives the chairmen of public corporations guidelines on general pay issues from time to time. There has been some reduction in the influence of national pay bargaining in recent years. A large element of pay in British Steel, British Shipbuilders, Austin Rover and Rolls Royce results from bonus schemes, which are negotiated at local level. In Austin Rover's case this is a recent development and reverses a previous move in the late 1970s to centralise pay determination.

53. Since these industries switched to more localised bargaining the increases in centrally determined national rates have certainly been low. In 1986 the general increases in basic rates at national level for British Steel and Austin Rover were restricted to 3 per cent. Whether average earnings growth has been any lower, either at sites in high unemployment areas, or on average across all plants is more difficult to establish. Experience is

that earnings increases at particular sites reflect, as is to be expected payments from bonus schemes, local productivity deals etc. There is no reason why these should reflect local labour market conditions. The change in the pay bargaining arrangements has probably improved unit cost control in the industries, by relating pay more closely to productivity, but there is no evidence that it has reduced average earnings growth.

54. Recently Thames Water has announced its intention to withdraw from the national bargaining arrangements covering Water Authorities and to negotiate pay for its employees separately. It is not clear what the result of this will be on average earnings throughout the water industry. If the relative tightness of the labour market in the Thames area was pulling up the national settlement then the withdrawal of Thames should lead to a fall, on average, in the rate of growth of pay in the water industry. However, it is possible that pay in the Thames region will henceforth accelerate by even more than it would have done, but that pay growth in the rest of the country will not decelerate. Unfortunately it will never be possible to prove the point one way or the other because we will never know what would have happened if Thames had stayed in the national bargaining forum.

Public Services

55. The benefits to employment of local pay variations in the public services will be largely indirect. The public services do not produce marketable output and therefore do not benefit, in an employment sense, from increased competitiveness. (Of course, if services are delivered more efficiently then the standard of service will improve.) There is some scope to substitute labour for capital in the public services. For example, if labour becomes cheaper relative to capital, the worthwhileness of some Information Technology projects would need to be re-assessed and public service manpower might increase relative to what it would otherwise have been.

56. The major influences are likely to be more indirect. If greater regional pay differentiation reduced the paybill for the public services overall employment could benefit through various routes. There would be more room within existing cash limits for public authorities to purchase goods and services from others, thereby increasing private sector output and employment. Those agencies not subject to manpower ceilings might use the savings to hire more people to improve their services or introduce new ones. Perhaps more important, greater

differentiation might lead to transfer of work between regions producing greater evenness in the pattern of public service employment. If public authorities did not use lower paybill costs to do this the lower costs would feed through directly into lower taxes and/or rates. While this would not increase public service employment it would put more money into the hands of the personal and company sector whose extra spending would generate extra output and employment.

57. About half the 5¼ million public service workers are employed by Central Government and the other half by local authorities. The scope for introducing geographic pay variations, and the extent to which the process is under Government control, varies from group to group.

Local Authorities

58. The Central Government has a role in determining the pay of two groups: police and schoolteachers.

59. The pay of 140,000 police is negotiated in the Police Negotiating Board. The Official Side consists of representatives of Government Departments (6 out of 21), local authority councillors and magistrates. Settlements are usually made following agreements in the PNB or arbitration but the Government can impose its own settlement. At present there are uniform national pay rates except that officers in London receive London Weighting and London Allowance and Inspectors and Chief Inspectors in London are paid on separate higher scales because of differences in their duties. Following an agreement reached in 1984 police pay rates are uprated each year from 1 September by the increase in the underlying average earnings in the year to the previous May. This formula falls to be reviewed after the 1987 settlement with any changes not to be implemented before September 1988. This review, in which Government representatives will participate, could consider geographic pay variation and there is no reason, in principle, why it should not be introduced. A number of other police forces eg MOD, Parks, AEA, follow the Police Service settlement and so any changes in arrangements would flow through to them.

60. The Education Bill, which is expected to receive Royal Assent in February 1987, will set up an Advisory Committee on pay for 470,000 teachers in England and Wales and give the Education Secretary powers to determine their pay by Order. The legislation includes geographic pay variation as one of the relevant factors that the Education Secretary could ask the Advisory Committee to

consider when making recommendations. The first review that the Advisory Committee will undertake will concern the April 1988 settlement.

61. When the Education Bill repeals the Remuneration of Teachers Act, there will be no legislation covering pay determination for 82,000 further education lecturers. There is also no legislation covering pay of any other local authority employees. Thus there is no direct Central Government role over the pay of 900,000 manuals, 650,000 white collar grades, 80,000 craftsmen, 40,000 firemen, and the rest of local authority employees. Their pay is negotiated in National Joint Councils, comprising representatives of local authority associations and trades unions. They set national pay scales but there is no compulsion on individual local authorities to pay these rates. The Environment Secretary has recently called upon local authorities who consider the recent award to manual workers excessive to exercise their right not to implement it. He is also considering whether the links between some local authority pay rates and the pay of a small number of Central Government employees can be broken.

62. In practice most local authorities pay the national rates. However, there are two areas of variation. First, some councils have a policy of bringing all their employees up to a minimum level of earnings and pay their lower manual grades supplements to reach this target. Sheffield and Ealing are examples of councils which do this. Secondly, while national pay scales are laid down in the national agreements there are no national grading standards which place particular jobs on particular points on the pay scale. Individual local authorities can place these jobs where they please on the scales and this flexibility is often used to deal with shortages of particular skills in particular areas. We do not know the extent to which this occurs but have been told by officials of the Local Authorities Conditions of Service Advisory Board (LACSAB) that it is fairly widespread.

63. Geographic variation in local authority pay could happen in two ways. The regional variations could be negotiated in the national negotiations. But, this seems most unlikely. Alternatively individual authorities could decide to ignore the national rates and set pay themselves. The outcome of widespread local bargaining is difficult to predict but it could prove more expensive overall with some local settlements bidding up general pay through leap-frogging.

64. If the Government wished to encourage more geographic pay variation for these groups it might be able to do so by altering the distribution of Rate

Support Grant, providing less to areas where it believed pay could be reduced relative to the national average. This could be done by reducing the Government's estimates of "need to spend" (GRE) in areas where pay could be reduced. Grant would then be transferred to London and the South-East. This would require legislation and would be very controversial. And, given the limited effect of previous and existing financial sanctions on local authority overspending the effectiveness of such pressure is doubtful.

Central Government

65. Central Government has about 2 million employees. About half have their pay determined following Review Body recommendations. These Review Bodies are non-statutory and the Government is not bound to accept their recommendations but it has given undertakings to do so unless there are clear and compelling reasons for overriding them. For two of the Review Bodies - Armed Forces, Top Salaries - geographic pay variation does not seem appropriate. Armed Forces personnel have to serve wherever they are directed, either in the UK or abroad. The great majority of TSRB grades work or, in the case of judges and senior military officers, are based for part of the time in London.

66. Geographic pay might be more appropriate for the 490,000 nurses and midwives and 35,000 paramedics covered by the Nurses Pay Review Body. Indeed there is some evidence of geographic variation in recruitment and retention for particular grades which could justify geographic variation in pay scales. (At present there are national pay rates and common grading standards throughout the Health Service.) The Government evidence to the Nurses Pay Review Body has asked them to consider the role of geographic pay variation in alleviating localised recruitment and retention difficulties. There might also be a case for some geographic variation in the pay of Doctors and Dentists.

67. The other 1 million Central Government employees have their pay determined through collective bargaining. There is already some geographic pay variation in the industrial Civil Service because national pay scales are supplemented by locally negotiated (within central guidelines) bonus schemes. However, these generally reflect local productivity arrangements rather than local labour market conditions.

68. Ministers are receiving a separate paper about the non-industrial Civil Service.

69. The Civil Service accounts for about 600,000 out of the 1 million collectively bargained Central Government employees. Most of the rest are Health Service employees who are not covered by Review Bodies - ancillary workers, administrative and clerical grades, craftsmen, certain specialists.

70. Some movement towards greater geographic pay variation is already planned for these groups, starting with the 130,000 administrative, clerical and secretarial grades. So far proposals have been put to the unions for regional variations in the size of allowance for data processing. At present data processing grades receive pay supplements in recognition of their special skills and the greater recruitment and retention problems compared with ordinary secretarial and clerical staff. Within the Health Service these problems are most acute in the Thames Health Authorities. NHS management has put forward proposals allowing for increases in present allowances but the increases to be at the discretion of local management and for that variation to be used to deal with recruitment and retention problems. The maximum increases on present allowance levels would be set from the centre and different maximums would be set for different NHS Regions. The unions have not yet accepted these proposals but have not rejected the principle of regional differentiations in these allowances.

71. The current pay scales for these workers are to be restructured from April 1987. NHS management propose to make local discretion to reflect different recruitment and retention pressures a feature of their proposals. The basic idea is to have very short basic scales for each grade instead of the present long ones, but a number of discretionary points on top of the basic scale. Management would use these discretionary points in a flexible way, including rewarding special skills and performance and dealing with recruitment and retention difficulties.

72. Nevertheless, if geographic pay variation can be introduced at reasonable cost for the white collar grades the rest of NHS non-Review Body staff, including ancillary workers and craftsmen, could follow later.

73. There is a trade-off between controlling overall costs and introducing worthwhile flexibility. The most detailed information about localised recruitment and retention difficulties is obviously held at local level. There is an argument that the most effective way to relate pay to local labour market conditions is to delegate authority for pay determination to local level. The danger of doing this is that a combination of management weakness and inability

to deal with local unions will lead to the discretionary points becoming norms. As a result the overall level of average earnings would increase without any worthwhile local variation taking place. It therefore seems best for local pay variations to be implemented under central control. Certainly before any decision taking could be delegated there would need to be effective systems in place to keep local costs under control.

74. Finally, it is worth noting that if significant regional variations in pay could be implemented throughout a significant part of the public services this might encourage greater variation in the rest of the economy. Apart from the demonstration effect this could happen because in areas of the country where the public services are big employers public service pay rates may set the going rate of pay for certain types of job in those regions. A reduction in relative public service pay rates might enable private sector employers to follow suit.

TABLE 1

Proportion of Labour Force Whose Pay is Determined by National Agreements (Per Cent April 1985)

	National Agreement Only	National & Supplementary Agreement	Company/ District Only	No Collective Agreement
Full-time Manuals	36.7	18.9	13.5	30.9
Full-time Non-Manuals	43.4	8.4	8.2	40.0

Proportion of Labour Force Whose Pay is Determined by a Collective Agreement Covered by National Agreements (Per Cent April 1985)

	National Agreement Only	National & Supplementary Agreement	Company/ District Only
Full-time Manuals	53.1	27.4	19.5
Full-time Non-Manuals	72.3	14.0	13.7

Source: New Earnings Survey 1985

TABLE 2

CHANGE IN PAY BARGAINING ARRANGEMENTS

	Public Sector		Private Sector		Private Manufacturing		Private Services	
	1980	1984	1980	1984	1980	1984	1980	1984
National	75	79	46	47	41	40	54	54
Company	23	17	22	27	16	20	28	32
National & Company	98	96	68	74	57	60	82	86
Plant	-	1	30	23	41	38	13	10
Others	1	1	2	2	1	1	4	3
No Info	-	2	1	1	1	1	1	1

Base: establishments recognising manual unions

Source: Workplace Industrial Relations Surveys, 1980 and 1984

TABLE 3

NATIONAL PAY AGREEMENTS IN PUBLIC SECTOR

(a) Public Services

Virtually all 5.25 million public service workers are covered by national agreements. The main groups are:

Group		Numbers
Civil Service	- industrials	105,000
	- non-industrials	498,223
Local Authority	- manuals	999,579
	- non-manuals	634,212
Teachers		501,124
NHS	- nurses & midwives	490,900
	- admin & clerical	130,900
	- ancillaries	171,800
	- doctors & dentists	97,930
Police		142,684
Firemen		41,442
		3,813,794

(b) Public Trading Sector

Several industries are not geographically dispersed, notably coal, steel and shipbuilding. However the utilities and services industries are and the four biggest account for more than half the public trading sector (1 million employees) and are covered by national bargaining.

Group	Numbers
Post Office	184,800
British Rail	177,150
Electricity Supply	147,215
Water Services	59,735
	568,900

TABLE 4

EXAMPLES OF NATIONAL AND COMPANY SETTLEMENTS IN THE PRIVATE SECTOR

(a) Little or no secondary bargaining: little regional variation in pay (except London or territorial allowance)

Group	Numbers
Clearing Banks	205,000
Halifax Building Society	10,000
General Accident Assurance	10,000
Electrical Contracting (JIB)	30,000
Vauxhall Motors	20,000
Austin Rover	34,975
Ford Motor Company	47,000
Retail Co-op Societies - retail staff	62,000
Marks & Spencers	45,000
ICI	56,000
BT	131,000
Plumbing	30,000
Baking Production	16,000
Sainsburys	59,000
Asda	29,000
British Gas	93,400
	878,375

(b) Some secondary bargaining: some variations in pay levels

Merchant Navy Seamen	15,000
British Clothing Industries Assoc	140,000
Motor Vehicle Retail and Repair	360,000
British Footwear Manufacturers	40,000
Retail Multiple Grocery	166,000
Agriculture Workers	232,000
Construction	550,000
British Printing Industry	128,000
British Paper & Board Industry	26,000
Newspaper Society (Printers)	37,000
Electrical Cable Making	3,200
Milk Processing & Distribution	87,700
	1,784,900

(c) Significant secondary bargaining: significant variations in pay levels.

Group	Numbers
National Engineering Agreement	1,300,000
Chemical Industries Association	62,000
Food Manufacture	40,000
Furniture Manufacture	53,300
Light Metal Trades Agreement	15,000
	1,470,300

Notes

(i) 2.75 million workers are covered by Wages Councils, which set national minimum rates. There is secondary bargaining as well in some sectors but to varying degrees.

(ii) Secondary bargains cause earnings variations but the national agreements are usually strongly influential in shaping the general level of increases in earnings throughout the country in the industry concerned.

TABLE 5

Regional Variations in Average Hourly Earnings for Full-time Adult Workers and Unemployment Rates (1985, New Earnings Survey). Index Numbers

REGION	MANUALS		NON-MANUALS		UNEMPLOYMENT
	MALE	FEMALE	MALE	FEMALE	RATE
LONDON	112.9	115.9	120.0	120.7	79.5
SOUTH-EAST (exc LONDON)	98.6	99.5	98.3	98.4	70.5
EAST ANGLIA	94.6	96.0	93.0	88.7	80.3
SOUTH WEST	94.3	94.2	92.6	94.6	90.3
WEST MIDLANDS	98.2	98.5	92.0	94.9	116.6
EAST MIDLANDS	96.7	95.0	88.7	91.9	96.2
YORKSHIRE & HUMBERSIDE	98.5	96.7	92.9	92.8	113.6
NORTH-WEST	99.7	100.2	96.0	97.4	122.7
NORTH	101.4	100.0	91.9	92.8	142.-
ENGLAND	100.1	100.4	100.4	101.0	
WALES	99.8	99.2	92.8	92.5	128.0
SCOTLAND	92.2	97.6	98.9	94.3	118.9
GB	100.0	100.0	100.0	100.0	100.0

TABLE 6

Regional Variations in Average Hourly Earnings for Full-Time Adult Workers and Unemployment Rates (1986, New Earnings Survey). Index Numbers

REGION	MANUALS		NON-MANUALS		UNEMPLOYMENT
	MALE	FEMALE	MALE	FEMALE	RATE
LONDON	113.1	118.5	120.2	121.8	74.3
SOUTH-EAST (exc LONDON)	99.0	100.3	99.6	96.9	69.3
EAST ANGLIA	95.2	96.8	91.6	90.0	82.-
SOUTH WEST	95.1	94.8	92.0	93.8	89.7
WEST MIDLANDS	98.6	98.3	92.7	95.4	114.0
EAST MIDLANDS	97.5	96.0	90.3	93.4	94.3
YORKSHIRE & HUMBERSIDE	97.8	94.3	91.1	90.1	116.2
NORTH-WEST	100.0	100.8	94.2	96.8	119.3
NORTH	100.4	97.9	92.3	92.5	140.-
ENGLAND	100.2	100.5	100.6	100.8	
WALES	98.3	97.7	91.4	92.7	127.2
SCOTLAND	98.8	97.2	98.0	96.0	116.1
GB	100.0	100.0	100.0	100.0	100.0

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Table 7

Percentage Increase in Average Hourly Earnings (excluding overtime) for full-time adult workers:
April 1986 - April 1980 [New Earnings Survey]

	MANUALS				NON-MANUALS				UNEMPLOYMENT RATE	
	Males		Females		Males		Females			
	% Increase	Index	% Increase	Index	% Increase	Index	% Increase	Index	April 1980	April 1986
LONDON	68.2	116.9	65.4	112.8	79.4	108.5	80.9	106.2	3.8	10.5
SOUTH-EAST (exc LONDON)	59.1	101.4	58.2	100.4	74.1	101.2	73.6	96.6	3.8	9.3
EAST ANGLIA	61.7	105.8	57.0	98.3	69.5	95.0	74.3	97.5	4.5	10.7
SOUTH WEST	62.1	106.5	57.6	99.3	68.7	93.9	70.7	92.8	5.6	11.9
WEST MIDLANDS	55.9	95.9	55.8	96.2	72.0	98.4	72.6	95.3	6.0	14.9
EAST MIDLANDS	55.2	94.7	57.7	99.5	72.0	98.4	83.1	109.1	5.1	12.3
YORKSHIRE & HUMBERSIDE	56.9	97.6	53.4	92.1	69.0	94.3	70.6	92.7	6.1	14.9
NORTH WEST	60.1	103.1	61.3	105.7	70.8	96.7	80.0	105.0	7.6	15.7
NORTH	55.4	95.0	57.3	98.8	66.6	91.0	65.7	86.2	9.0	18.1
WALES	52.8	90.6	54.0	93.1	68.3	93.3	78.4	102.9	8.4	16.5
SCOTLAND	55.9	95.9	58.6	101.0	73.7	100.7	79.2	103.9	8.4	15.0
GB	58.3	100	58.0	100	73.2	100	76.2	100	5.9	13.2

TABLE 8 AVERAGE GROSS WEEKLY EARNINGS BY OCCUPATIONAL GROUPS (1985)

Full-Time Males on Adult Rates

	LONDON	SOUTH-EAST (exc LONDON)	EAST ANGLIA	SOUTH WEST	WEST MIDS	EAST MIDS	YORKS &HUMB	NORTH WEST	NORTH	ENGLAND	WALES	SCOTLAND	GB
ALL OCCUPATIONS	121.2	102.0	95.0	93.0	93.7	91.2	93.9	96.3	93.2	100.5	93.1	98.6	100
NON-MANUALS	117.6	100.6	94.2	91.9	92.6	90.1	93.3	95.3	92.3	100.4	91.9	99.6	100
MANUALS	112.3	100.4	98.0	93.9	97.6	96.7	98.2	99.1	98.7	100.1	97.6	103.7	100
PROFESSIONAL & RELATED IN EDUCATION, WELFARE AND HEALTH	110.5	99.1	97.2	95.3	93.1	92.4	101.9	102.1	97.9	99.9	97.1	102.3	100
CLERICAL & RELATED	113.7	97.7	97.7	94.9	95.4	93.0	94.0	96.2	93.7	100.9	90.5	94.5	100
PROCESSING, MAKING & RELATED (METAL & ELECTRICAL)	111.4	100.2	97.9	93.8	95.7	96.1	98.4	98.7	99.8	99.4	98.1	106.4	100
TRANSPORT OPERATING, MATERIALS, MOVING, STORING & RELATED	112.9	102.6	102.8	92.9	95.6	96.0	96.9	98.5	98.6	100.3	99.4	97.6	100

Full-Time Females on Adult Rates

ALL OCCUPATIONS	122.2	100.5	93.8	94.5	93.0	90.4	92.8	95.7	94.7	100.9	94.0	94.2	100
NON-MANUALS	120.0	99.7	93.5	93.9	93.1	92.0	92.7	95.4	94.2	101.0	94.0	93.9	100
MANUALS	116.8	100.7	95.0	93.8	97.6	94.5	95.9	99.7	99.2	100.3	98.4	98.1	100
PROFESSIONAL & RELATED IN EDUCATION, WELFARE & HEALTH	110.8	99.8	96.5	95.0	99.2	96.0	98.7	99.5	98.7	100.4	95.7	98.7	100
CLERICAL & RELATED	120.8	98.6	94.1	94.6	92.4	91.4	92.5	94.4	91.9	101.1	90.7	93.5	100
CATERING, CLEANING, HAIRDRESSING & OTHER PERSONAL SERVICES	120.8	102.5	94.6	89.2	92.8	94.7	94.4	98.8	95.3	100.8	96.6	95.6	100
MAKING & REPAIRING (exc METAL & ELECTRICAL)	110.8	108.3	-	98.5	100.5	93.9	98.3	97.0	98.8	99.7	103.9	100.7	100

Table 9

REGIONAL VARIATIONS IN COST OF LIVING

(a) Variations including housing costs

REGION	A	B	C	D	E
LONDON	107.2	135.5	115.6	129.0	129.4
SOUTH EAST (ex London)	102.5	115.0	106.1	110.8	109.7
EAST ANGLIA	99.9	96.7	99.7	98.8	96.2
SOUTH WEST	99.3	99.3	100.0	98.9	99.0
WEST MIDLANDS	103.0	86.1	94.0	89.8	91.6
EAST MIDLANDS	100.5	84.7	92.6	88.3	91.0
YORKSHIRE & HUMBERSIDE	95.9	83.1	91.9	88.1	89.7
NORTH-WEST	98.6	86.6	98.2	93.5	92.7
NORTH	94.8	83.3	92.5	87.9	89.9
WALES	98.5	89.2	94.2	92.2	92.7
SCOTLAND	97.4	113.2	103.0	102.6	99.5
UK	100	100	100	100	100

(b) Variations excluding Housing Costs

REGION	A	B	C	D	E
LONDON	101.4	101.4	101.3	101.3	101.2
SOUTH-EAST (ex London)	101.1	101.1	101.6	101.6	101.4
EAST ANGLIA	99.6	99.6	101.1	101.1	101.3
SOUTH WEST	101.1	101.1	101.3	101.3	99.5
WEST MIDLANDS	99.3	99.3	98.7	98.7	99.1
EAST MIDLANDS	98.3	98.3	98.7	98.7	99.0
YORKSHIRE & HUMBERSIDE	96.6	96.6	96.4	96.4	97.1
NORTH-WEST	101.7	101.7	101.5	101.5	101.6
NORTH	96.4	96.4	96.1	96.1	96.4
WALES	97.1	97.1	96.8	96.8	97.0
SCOTLAND	101.2	101.2	101.3	101.3	101.5
UK	100	100	100	100	100

(c) Variations in Housing Costs

REGION	A	B	C	D	E
LONDON	119.3	186.6	154.8	177.5	177.6
SOUTH-EAST (ex London)	104.6	135.4	117.5	125.1	124.7
EAST ANGLIA	97.9	90.6	94.7	93.6	87.3
SOUTH WEST	94.4	95.9	95.4	93.2	96.5
WEST MIDLANDS	112.1	67.7	81.7	75.5	78.5
EAST MIDLANDS	106.9	65.0	76.5	71.6	77.2
YORKSHIRE & HUMBERSIDE	97.0	64.5	81.9	75.4	76.8
NORTH-WEST	90.6	62.9	87.7	79.3	77.2
NORTH	94.0	65.5	85.3	75.7	78.2
WALES	103.9	78.8	89.1	85.1	85.4
SCOTLAND	87.8	130.7	106.9	103.4	96.2
UK	100	100	100	100	100

Notes

Category A = Council House Tenant, 3 bedrooms semi-detached.
Category B = Owner Occupier, 3 bedroom terraced house 68% mortgage.
Category C = Owner Occupier, 3 bedroom semi-detached 30% mortgage.
Category D = Owner Occupier, 3 bedoom semi-detached 68% mortgage.
Category E = Owner Occupier, 3 bedroom detached 68% mortgage.

Consumption pattern for each household otherwise based on findings of Family Expenditure Suvey. Household assumed to comprise 2 adults 2 children (aged 10 and 13).

Source: Cost of Living Report (September 1986), Regional Rewards Survey.

Table 10

REGIONAL VARIATIONS IN HOUSE PRICES

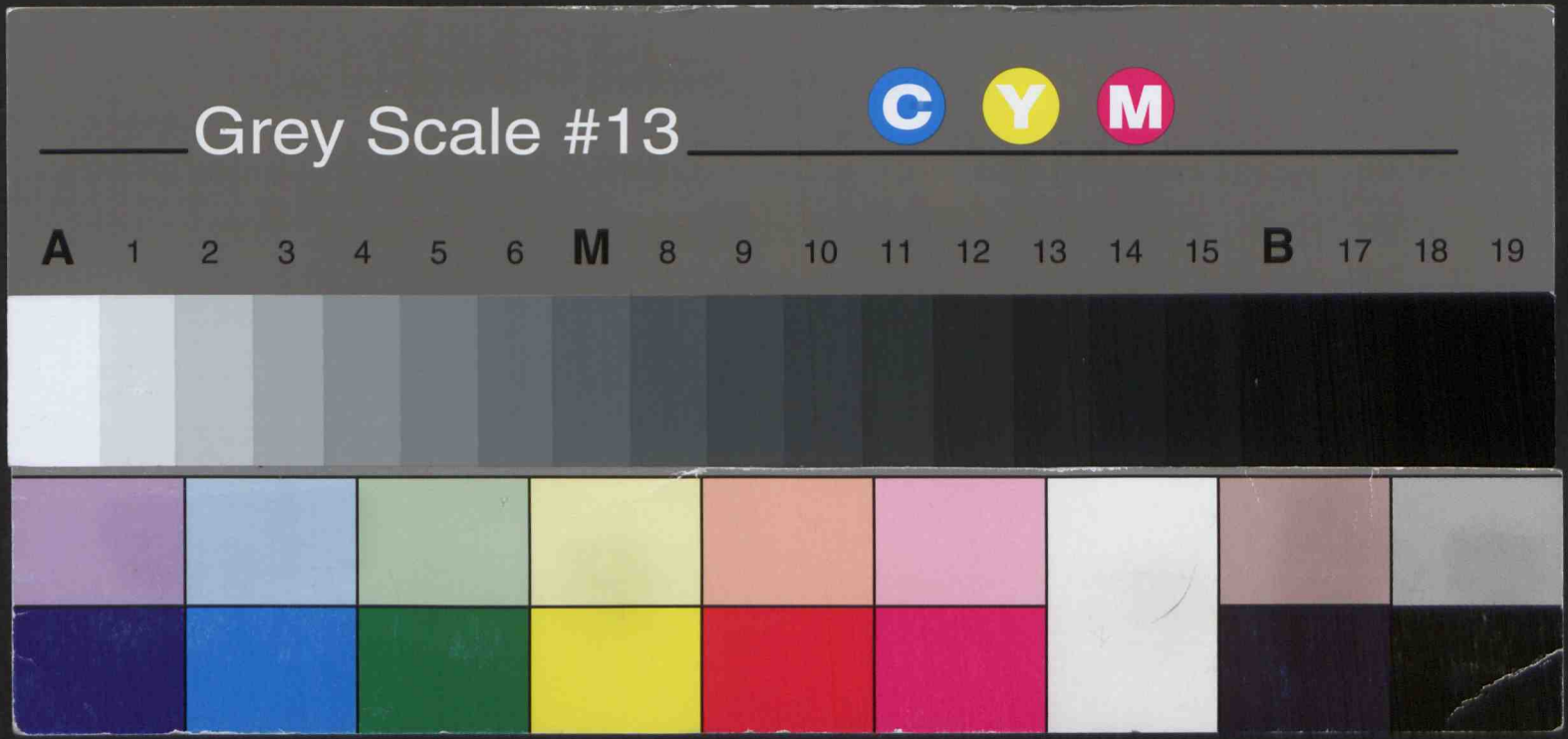
REGION	3 bedroom terraced (Price (£)	Index	3 bedroom semi-detched Price (£)	Index	3 Bedroom detached Price (£)	Index
LONDON	56750	193	71543	187	91582	183
SOUTH-EAST (ex London)	42034	143	51472	134	65937	132
EAST ANGLIA	26670	91	36300	95	45580	91
SOUTH WEST	27397	93	36061	94	47031	94
WEST MIDLANDS	17485	60	27250	71	38310	77
EAST MIDLANDS	19075	65	27870	73	39750	79
YORKSHIRE & HUMBERSIDE	18070	62	26883	70	37398	75
NORTH-WEST	18442	63	27867	73	37689	75
NORTH	18350	63	28663	75	39025	78
WALES	21300	73	31400	82	45081	90
SCOTLAND	29693	101	34350	90	42075	84
UK	29333	100	38315	100	50010	100

PART 15 ends:-

Ch. Exch. to SS/MoD 29.5.86

PART 16 begins:-

MS/MoD to Ch. Exch. 2.6.86


Grey Scale #13
C
Y
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