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CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

PAY OF THE INDUSTRIAL CIVIL SERVICE

Note by the Lord President of the Council

1. We need to decide the limits within which to negotiate a pay settlement operative from 1 July for the 150,000 industrial civil servants covered by the Joint Co-ordinating Committee for Government Industrial Establishments - the tail-end of the 1980 Civil Service pay round. About 90% are directly or indirectly involved in the Defence effort: 70% are in the Ministry of Defence itself, mainly in the dockyards, the ordnance factories and REME and RAOC workshops.

2. Having been held back by the previous Government's incomes policy, this group received last year 26.7%, but staged so that 11% was paid from 1 July, 5% from 1 January and the rest from 1 April 1980. The settlement was based on detailed evidence about outside pay and other conditions of service for similar jobs, collected by the Civil Service Pay Research Unit. The staging resulted in some industrial action, mainly in the dockyards. This action was, however, unsuccessful and it collapsed without any increased offer from the Government after a few weeks.

3. For this year E(EA) agreed on 9 January that a further study of outside pay and conditions should be undertaken by the Pay Research Unit. We have given no commitment that the settlement will be based on it, but of course the detailed factual information is available to the unions as well as to us.

4. The cash limit set for increases in Civil Service manpower costs is 14%. Because of the manpower squeeze this would allow an increase of about 16.9% in the pay of the staff remaining. The settlement reached for non-industrial civil servants averaged 18.75% and this was kept within the cash limit by deferring the operative date by five weeks. The cash amount available for the industrial settlement is the equivalent of £110 million for a full year.

5. Part of the information collected by the Pay Research Unit consists of the basic rates paid outside the Civil Service. If we took these alone and adjusted them for other conditions of service (in particular a deduction of about 7½% is being made for the differences in superannuation arrangements) the increases due on Civil Service rates would range from about 23% for unskilled workers to over 25% for craftsmen. This is the way it was done last year and the unions are bound to press for this level of settlement.

6. However, the evidence also shows that a higher proportion of total earnings inside the Service than outside comes from productivity schemes. This is because outside the Service productivity payments have been consolidated over the years into basic rates. If we looked at earnings alone, a smaller increase could be justified. I expect the unions to resist this, partly because it would be a departure, to their detriment, from previous practice and partly because a comparison of earnings is not very meaningful since these are dependent on different productivity arrangements inside and outside the Service. We should nevertheless go as far as we can in changing last year's approach so as to put the emphasis on earnings instead of basic rates.

7. It is possible that, by persuading the unions to accept a consolidation of some productivity payments as part of the basic rate increase for which they are due anyway on the basis of the evidence, we might get a deal which would keep the net cost on the pay bill to 16.9%. This would be about the lowest possible increase which could be justified as bearing some relationship to the outside evidence; and the most which could be paid within the cash limit without staging. (It would include the increase in overtime rates, etc, which would follow from the consolidation; part of it may need to be given in the form of increased allowances and perhaps an extra day's leave.)

8. Apart from the evidence for a high increase in basic rates, the unions will also have their eye on the 18¾% increase for non-industrials. In particular the Professional and Technology grades, some of whom supervise industrials, have received increases of around 18% or 19%.

9. These negotiations are among the last of the present pay round and therefore have limited direct relevance to the next pay round. As I see it, we therefore have two options:

a. to seek a settlement at 16.9% - although we would of course open negotiations at a lower figure;

b. to be prepared, if this is necessary for a settlement, to go to 18¾% with the staging which would then be necessary to stay within the cash limit and to avoid any extra cost on the pay bill over the year from 1 July. The pattern of the staging, which need not follow the non-

industrial arrangements, would be for negotiation. The unions might for example prefer some money in their members' pockets straightaway, with a longer deferment of the rest.

10. There seems a reasonable chance of a negotiated settlement under option b. I should tell my colleagues that under option a. industrial action would be a distinct possibility.

11. The quicker we can open negotiations the better. The unions' attitudes will begin to harden as soon as we get past the operative date of 1 July, because they know that an offer based solely on the outside evidence could be made straightaway. It would be helpful to be able to start negotiations at the next meeting arranged with the unions on 30 June.

12. I ask my colleagues to consider whether we should stand on 16.9% even if this means industrial action or whether we should be prepared to go to 18.75%, with appropriate staging, if this is necessary for a settlement.

CS

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