

Ref. A07240

PRIME MINISTER

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Please see, too, John Vercher's  
note attached. Do you wish to chair  
the next meeting of MISC 66?

MS 26/1

1982 Pay Offer to the Non-industrial Civil Service

I have seen the Chancellor of the Exchequer's minute to you of 25th January reporting the conclusions of his Ministerial Group, MISC 66, on the 1982 pay offer to the non-industrial Civil Service.

2. The Chancellor explains that the main feature of the proposed offer is a difference in treatment between those staff who are on fixed point scales or at the top of incremental scales, and those staff who still receive annual increments - about half the non-industrial Civil Service. The offer to the former group will be perhaps  $4\frac{1}{2}$  per cent, but the offer to the rest will be either nothing or perhaps 1 per cent.

3. At your meeting on 7th January you stressed the need to devise an offer which would appear fair and reasonable at arbitration. You will wish to consider whether this proposal meets that requirement. I am not convinced that it does. The original intention at the meeting on 7th January was to devise a varied offer based primarily on recruitment and retention considerations with the increases for particular groups reflecting managerial needs. In the event it has not proved practicable to introduce geographical variations, although something may be done about London Weighting. Part of the offer is to be set aside to provide extra rewards in certain areas e.g. data processing, and there is to be separate provision, outside the main pay negotiations, for dealing with small groups of specialist staff, such as nuclear inspectors, where recruitment and retention problems are acute. These appear to be useful variations, but they are very limited in scope. Officials have concluded that it would not be practicable, and would create problems for the arbitration, to have a much more fragmented offer.

4. We are therefore left with an offer whose main characteristics will be seen as penalising those receiving annual increments. This discrimination could not be justified on managerial grounds. We cannot for example argue that



we have a greater need to retain the services of those who happen to be on fixed point salaries or at the top of their scales rather than those who happen to be working their way up the scales. The only argument available is that those who are working their way up incremental scales will in any case have their pay increased by (on average)  $4\frac{1}{2}$  per cent when they get their annual increments, and that, since there is very little money to go round, those who are due to receive increments should go without any further increase (or make do with a very small increase) in the interests of giving a more generous increase to those who do not benefit from annual increments. The unions and the staff are likely to argue that discrimination on this basis is irrational and unfair. They will argue that, where a grade is paid on an incremental scale as opposed to a fixed salary, the annual increments are seen as part of the basic salary structure; the appropriate salary for the grade is the salary scale as a whole, progression up which is supposed to reflect increased experience and therefore greater value in the grade, and the increments should not be brought into account in the annual process of salary adjustment. The unions, knowing that the Government has asked the Megaw Inquiry to consider merit pay increases as an alternative to fixed increments, may indeed see this part of the offer as a deliberate device for killing off increments through the back door. Following the suspension of the Pay Agreement last year it may look like another stage in the destruction of the traditional Civil Service pay arrangements.

5. With a view to reducing the risk <sup>of</sup> precipitating a major row at this early stage in the pay negotiations, with all that that would imply for the arbitration and possible Parliamentary override which lie ahead, it is perhaps worth considering whether we should combine this offer with an alternative - or more than one alternative - for discussion with the unions. I see that this idea appealed to some of the Ministers at the MISC 66 meeting on 21st January. Since one of our concerns this year is to fulfil the assurance that there will be genuine negotiations, and since there is little room for manoeuvre over the size of the offer prior to arbitration, there would be tactical advantage in putting forward two or more alternative schemes for distributing the sum available, as a basis for discussions

with the unions about the shape and distribution of the offer; and in that way the Government would be less likely to seem to be making such a frontal attack on increments. One possible alternative could be a flat-rate offer of, say,  $2\frac{1}{2}$  per cent with variations for the groups of staff (data processors, nuclear inspectors, etc.) where there were special recruitment and retention problems; other alternatives could be added.

6. The shaping of the Government's initial offer is potentially the most critical stage in this year's Civil Service pay negotiations. The proposal contained in the Chancellor's minute of 25th January needs to be more fully thought through and weighed against other possible options before it goes ahead. You might like to call another meeting of MISC 66, with yourself in the chair; or else have a smaller meeting with the Chancellor of the Exchequer, the Chancellor of the Duchy of Lancaster and the Secretary of State for Employment.

RA

ROBERT ARMSTRONG

26th January, 1982