

SECRET

Prime Minister 4

PRIME MINISTER

MUS 29/11

MT

cc: Mr. Hoskyns

CIVIL SERVICE PAY

The meeting of MISC 66 on Tuesday morning, which you have decided to Chair, will concentrate on two papers: one on the shape of the offer, and one on tactics and communications. There will be a subsequent meeting of the group under the Chancellor's Chairmanship to consider less important issues, such as London Weighting. Because we thought that you would want to consider the papers over the weekend, Peter le Cheminant, who has been Chairing the official group, will be circulating two papers later this evening before the Chancellor has seen them; and although I have of course been involved in their preparation, I have not yet seen the final versions myself. Nonetheless the main issues for your meeting on Tuesday are I think clear.

There are two fundamental decisions about the shape of the offer:

- (i) Whether to stick with the decision you and your colleagues took earlier to make a disaggregated offer of different amounts to different groups, or whether to reconsider the possibility of a flat rate increase. There are undoubtedly difficulties about the disaggregated offer, which is bound to mean that large numbers of civil servants will get little or nothing. But I am sure it is right to go down this road, both because it is what is indicated by our general approach to pay, whereby we take account of the need to recruit, retain and motivate, and because it is much easier to find good management grounds for defending it before the arbitrator than if we pick a flat rate figure out of the air.
- (ii) Whether to formulate the disaggregated offer around the incremental system. As I said in my earlier note, I am concerned that the Treasury's original proposal, under which there would be an extra increment at the top of each scale but nothing else, would look too much like a move towards the abolition of the incremental system at the very time that the Megaw

SECRET

/Inquiry was

Inquiry was supposed to be considering its merits. I have therefore gently encouraged the official group to think about ways of formulating the offer in such a way that does not rest entirely on that basis, and the papers will show a number of possible approaches. The most promising of these, in my view, is to provide not only for an extra increment at the top of each scale, but also for some increase in pay at the upper end of existing incremental scales. That would be readily defensible to the arbitrator on the grounds that it is not just at the top of each scale that we face particular difficulties in retention as a result of the worsened promotion prospects. Such a refinement, combined with the other elements already suggested for the package and reasonably clear presentation ought to enable us to avoid the charge of striking a blow on increments.

There are some quite important tactical points which ought also to be decided at your meeting. Briefly:

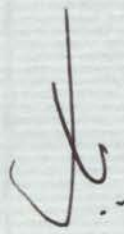
- (i) Should we hold back part of the package for a second round of negotiations? On balance I think this would be right, to keep the negotiating process going, (because we are committed to genuine negotiations), and the best thing to keep back would be the 1 per cent across the board increase. I very much doubt if a package containing a zero across the board increase is in fact more provocative than one containing 1 per cent.
- (ii) Should the opening stages of the negotiations, up to and including the point at which the offer is made, be led by officials rather than Ministers? I think they should, because we want to keep the temperature as low as possible, and to provide the unions with the escape valve of demanding to see Ministers if necessary.
- (iii) Should we contemplate presenting the unions with alternative proposals? I think not, because I do not see how we could subsequently say to the arbitrator that our position was determined by the genuine management requirements.

Finally, it is essential that, given the extended strike last year and the generally unpalatable nature of the offer we will be making, to create the best possible back-drop to the negotiations; obviously, anything the Chancellor can do in the Budget will help. But points you may wish to cover at your meeting include:

*I have told them that you must be consulted before the decision is made.*

*MCS*

- (i) The timing of any offer to the NHS groups. The Chancellor will be minuting you separately about this, probably on Monday. The Ministerial Committee on Pay, which he Chairs, has agreed that Mr. Fowler may offer more than 4 per cent to some NHS groups, including the nurses. Clearly, we ought to try and get our offer to the civil servants on the table first, and to keep any drift above 4 per cent in the NHS to an absolute minimum.
- (ii) The effect of the Government's decisions on the follow up to the Scott report. Officials are working, as directed by Cabinet, on action to increase contributions. An announcement at the appropriate time that Ministers have decided not to restrict benefits, and to recognise that the civil servants already pay more than other public service groups for their pensions, could be of considerable help.
- (iii) Manpower issues. We must try and avoid any announcements, such as on the introduction of new technology, which might have the effect of providing the unions with a new grievance about civil service manpower.



J.V.

29 January 1982