

PRIME MINISTER

The Government's offer
(MISC 66(82)6)

BACKGROUND

At your meeting on 7 January about civil service pay it was agreed that officials should start work on designing an offer that would appear as fair and reasonable as possible to an arbitrator. The offer should not be an across the board percentage increase but a series of revised pay scales which reflected the supply and demand for different kinds of labour. Officials should investigate how far it would be possible to reflect in these revised scales different pay levels in different geographical regions, as well as the scope for granting small or nil increases where there were large numbers of applicants for posts.

Alaga — 2. On 25 January the Chancellor of the Exchequer minuted you reporting the conclusions of the first meeting of the Ministerial Group on Civil Service Pay Negotiations (MISC 66). He explained that it had not proved practicable to introduce geographical variations, although something might be done about London Weighting. Part of the offer was to be set aside to provide extra awards in certain areas, eg data processing, and there was 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 were acute. The main feature of the proposed offer was however a difference in treatment between those staff who were on fixed point scales or at the top of incremental scales, and those staff who still received annual increments - about half the non-industrial civil service. The offer to this latter group would be either nothing or perhaps 1 per cent, if there was a general "under-pinning" offer; the offer to the former category would be either $4\frac{1}{2}$ per cent or $5\frac{1}{2}$ per cent depending on whether there was a general "under-pinning" offer. The Chancellor acknowledged the bitterness which this approach might provoke and the issues of principle which might arise over the Government's view of increments. He said that officials had been asked to do further work.



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3. The paper by the chairman of the Official Group (MISC 66(82)6) is the product of this further work. Apart from some more detailed issues which are covered in paragraphs 11-15 of the paper, Ministers are invited to consider the following options:

Option A Nothing at the bottom of scales, 1 per cent for those receiving increments, and $5\frac{1}{2}$ per cent for those with at least one year's service at the top of the scale and those on fixed points.

(This is broadly the proposal set out in the Chancellor's minute of 25 January.)

Option B As Option A except that those receiving the top two increments on existing scales receive $2\frac{1}{2}$ per cent rather than 1 per cent, and those with one year's service at the top of the scale or on fixed points get $4\frac{1}{2}$ per cent rather than $5\frac{1}{2}$ per cent.

Option C Full tapering from nil at the bottom to 4.3 per cent at the top.

There are also two variants of Options B and C, described as B+ and C+, under which those at the top get $5\frac{1}{2}$ per cent, as they would under Option A. It is thought that all the options could be accommodated within a 4 per cent cash limit, except for Option C+.

MAIN ISSUES

4. The various options will need to be tested against the principles on which Ministers have so far been agreed:

- a. that the initial offer should be contained within the 4 per cent cash limit but there should be room for genuine negotiation;
- b. that the offer should be designed to seem as fair and reasonable as possible to an arbitrator;
- c. that the offer should reflect the Government's concern with recruitment and retention factors.



5. The meeting will first need to confirm that it accepts the judgement that it would not be practicable in this pay round to design a complex offer reflecting geographical variations and the detailed recruitment and retention position for each grade of staff, and that the proposals for particular groups (eg data processing staff and "shortage grades") are all that would be feasible this year. If this is accepted, the main choice is between a flat rate offer and some offer which discriminates on a "broad brush" basis, such as Options A, B and C and their variants.

6. Judged against the principles set out in para 4 above, Option A has some serious disadvantages. It would seem difficult to persuade an arbitrator that there are sound managerial reasons for paying more to all those who happen to be at the top of their scales or on fixed point salaries than those who happen to be receiving increments. (An example of the difficulty is the fact that all Government cleaners happen to be on flat rates rather than incremental scales, and it would be hard to explain why they should get much more generous treatment.) There is also the danger that the unions will see this option as an attack on the concept of incremental scales and will walk out of the negotiations.

7. Options B and C are considerably easier to justify in terms of the basic principles. In either of these two options there is no arbitrary discrimination against all those who happen to be receiving increments, and it is easier to deploy the argument that the Government, for sound managerial reasons, is seeking to reward experience proportionately at all levels. Of these two options, Option C would be easier to justify to the arbitrator, simply on the grounds that the tapering is more gradual; the cost of full tapering is to reduce the increase of those at the top from 4.5 per cent to 4.3 per cent but this is only marginal.

8. In considering the two variants of Options B and C, Options B+ and C+, Ministers will need to consider how much weight to give to the advantage of offering $5\frac{1}{2}$ per cent at the top of the scale. Presentationally it may make the offer as a whole seem more generous, and there may also be sound managerial reasons for giving particularly generous treatment to those who have reached the top of their scales at a time when promotion prospects are likely to be unusually poor. Against this it should be noted that Option C+ cannot be accommodated within the 4 per cent cash limit. Ministers may feel that if



either of the "+" options are to be adopted, the extra sum available should be deployed at the second stage of the negotiations rather than in the initial offer. It may also be possible to design some variant of C+ which combines both the concept of continuous tapering and a more generous offer at the top but can still be contained within the cash limit.

9. Ministers may wish to compare this basic approach of options providing some "broad brush" variation with two other possible approaches - a flat rate offer, and an offer with alternatives for discussion.

10. The main objections to a flat rate offer are that it would appear to pay insufficient regard to recruitment and retention considerations and would also give the Government a less satisfactory basis on which to argue before the arbitrator, since more attention would inevitably be paid to issues of comparability and the general level of pay settlements. Against this, a flat rate offer would have the benefit of simplicity, would lessen the dangers of a complex arbitration award (which could cause problems if Parliamentary override had to be invoked) and might provide a more straightforward basis on which to recast the civil service pay system following Megaw.

11. The main advantage of an offer containing alternatives is that it would provide room for more genuine negotiation with the unions at a time when there is little leeway over the overall value of the offer. The main disadvantage is that it may seem to weaken the position of Government as management. It would be more difficult for the Government to argue on managerial grounds for a particular option before the arbitrator if it had previously given the impression that it was prepared to drop the same option in deference to union preferences. This objection would be stronger if the alternatives were very different - for example the choice between a flat rate offer and Option A; it would be less strong if the choice was more at the margin, for example between Options B and C.

Skilled, experienced and shortage grades

12. Ministers are asked to consider whether they approve the proposals in paragraph 11 under which:



- a. £5 million is set aside as a kitty for shortage grades such as nuclear inspectors;
- b. £1.2 million is provided to increase allowances for automatic data processing (ADP) staff;
- c. £0.75 million is provided to permit a 5 per cent increase in typing, proficiency, data processing and similar allowances.

Other conditions of service

13. Ministers are not asked to take any decisions at this meeting about the other improvements in conditions of service as discussed in paragraph 12.

Other matters

14. Of the issues discussed in paragraphs 13-15 the only matter on which a decision is sought is that cleaners, like other grades on flat rates of pay, should receive the same increase as that awarded to those on the top of their incremental scales under whatever option Ministers finally approve.

HANDLING

15. You will no doubt wish to give the chairman of the Official Group the opportunity to introduce MISC 66(82)6. You will then wish to invite comments in particular from the Chancellor of the Exchequer, the Chancellor of the Duchy of Lancaster and the Secretary of State for Employment.

CONCLUSIONS

16. You will wish to reach conclusions on the matters listed in paragraphs 18(a)-(f) in MISC 66(82)6.

REA

ROBERT ARMSTRONG