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PRIME MINISTER

MISC 66(86)1st Meeting: Civil Service Pay Negotiations 1986

(Reference: Minute of 17 February from the Chancellor of the Exchequer to the Prime Minister)

BACKGROUND

In September 1985 the Group gave the Chancellor of the Exchequer authority to seek to negotiate a long-term pay arrangement (LOPA) with the Civil Service trade unions representing non-industrial staff. The main features were to be that the annual increase in the total pay bill would not be below the lower quartile nor above the upper quartile of pay movements in the private sector. There would be no unilateral access to arbitration, and the Government would retain a power to override the system in the public interest. There would be also surveys of levels of pay in the private sector from time to time, the results of which would be taken into account in the annual negotiations.

2. Proposals on these lines were put to the unions. But despite support from a majority of the General Secretaries all the unions except the Institution of Professional Civil Servants (IPCS) and the Prison Officers' Association (POA) rejected them. The Chancellor now seeks decisions on what alternative approach should be adopted for the 1986 pay negotiations.

MAIN ISSUE

3. The main issues are:

(i) should the Government return to 'free collective bargaining', or should it bind itself unilaterally to the principles of LOPA;

(ii) should the work being undertaken by the Office of



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Manpower Economics (OME) to collect statistics on pay movements in the private sector proceed to a conclusion;

(iii) what negotiating objectives should be adopted for 1986.

The Government's Objectives

4. The Government has a number of objectives in settling Civil Service pay. As an employer, it needs to be able to recruit, retain and motivate sufficient staff of adequate calibre to carry out its work. It wishes to avoid so far as possible industrial action and retain the goodwill of staff. It wishes to minimise departmental running costs. And it wishes to give signals to the rest of the economy, and to avoid repercussions on negotiations for other public service groups (particularly the NHS).

5. These objectives bear both on the quantum of the 1986 settlement and on the negotiating machinery which the Government adopts. To the extent that this commands respect and is judged as fair by Civil Servants they are less likely, for example, to take industrial action.

The Current Position

6. There are broadly two alternatives open to the Government now that the unions have rejected LOPA. It can either (i) return to free collective bargaining, or (ii) state unilaterally that it will regard itself as bound by some of the principles underlying LOPA. The choice between these is finely balanced. (ii) might lead to a more orderly negotiating machinery and a greater sense of fairness among staff, so reducing the risk of industrial action. (i) might produce a marginally lower settlement. Under 'unilateral LOPA' the aggregate increase in Civil Service pay would have to be no lower than the lower quartile of movements elsewhere - probably about 6 per cent*, which would have to be the opening offer and could be edged upwards.

It is unlikely, however, that a settlement much if anything below this level could be achieved by free collective bargaining, even with

*As described in the note attached to the Chancellor's letter, 1% of any settlement will be used for a restructuring of the clerical pay scales, thus leaving 5% for the Civil Service generally.

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a lower opening offer. For the last three years Civil Servants have had increases below the lower quartile and have therefore slipped substantially in the pay league. The pressure for catching up can and must be resisted, but further ratchetting down is probably unrealistic - at least without costly industrial action.

7. The Group will therefore have to assess managerial advantages of accepting LOPA against the possibility that it could result in a higher settlement. The main employing Departments (at official level) favour giving it a try.

The OME Study

8. With your agreement, the Treasury commissioned OME to set in hand the collection of statistics on pay movements in the private sector so that if LOPA had been accepted the statistical evidence would have been available in time for 1986. OME now have the data, but have not carried out the analysis. The issue is whether they be asked to do this (which will take another week or so) and if so whether the Group should postpone a decision on the choice between LOPA and free collective bargaining until the results are available. The advantage of completing the analysis is that it would provide a firm figure for the lower quartile, which would help the group to decide between LOPA and free collective bargaining. But once the information is available the Government cannot realistically avoid publishing it, and the figure will then feature in negotiations whatever approach the Government adopt. On balance, it seems worth deferring a final decision until the information is available, as the Chancellor of the Exchequer recommends.

HANDLING

9. You will wish to invite the Chancellor of the Exchequer to introduce his minute. All members will wish to contribute, particularly the Paymaster General on the implications for pay policy, and



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Departmental Ministers on the current position on recruitment and retention, the implications for departmental running costs, and the implications for other public sector groups.

CONCLUSION

10. You will wish to reach decisions on:

(i) whether the OME should be asked to complete their analysis of data on pay movements;

(ii) if so, should a decision between free collective bargaining and unilateral LOPA be postponed until that is available;

(iii) if not, should the Government bind itself unilaterally to the principles of LOPA;

(iv) whether to ask the Treasury to prepare detailed proposals for a negotiating strategy and opening offer.

J B UNWIN

18 February 1986
Cabinet Office

Non-industrial Civil Service ^{increase} and pay settlements in the wider economy

Pay round (1 August - 31 July)	Non-industrial Civil Service	Percentages			RA ¹
		Private Sector (note 1)	Public Sector (note 1)	Whole economy (note 1)	
1980-81	7.5	9.0	8½	8½	7
1981-82	5.9	7	6½	7	11.5
1982-83	4.9	5¾	5¼	5½	7.1
1983-84	4.5	5¼ - 5½	5¼	5¼	4.7
1984-85	4.9	6	5½	5¾	5.0

Andrews

Notes

1. Source: D Employment confidential monitoring of settlements