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Cabinet Office

MANAGEMENT AND PERSONNEL OFFICE

From the Minister of State
Privy Council Office
The Rt. Hon. Richard Luce MP

Great George Street
London SW1P 3AL
Telephone 01-233 8610

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
LONDON SW1P 3AG

25 March 1986

CIVIL SERVICE PAY 1986

I was mistakenly omitted from the circulation of your minute of the 17 March to the Prime Minister.

I am writing to let you know that I agree generally with the tactical steps which it sets out.

As you know I visit the Civil Service as I tour round the regions. There is great strength of feeling about pay and we should not underestimate the potential problems if the negotiation is not successful on this occasion.

On arbitration, I agree that no undertaking should be given but we should bear in mind that the issue is something of a running sore with civil servants.

I shall be interested to see how reactions develop, but we will need to assess the potential cost of failing to reach a negotiated settlement.

I am copying this to members of MISC 66.

RICHARD LUCE

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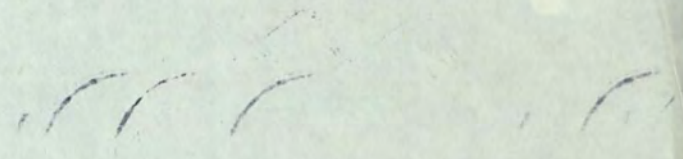
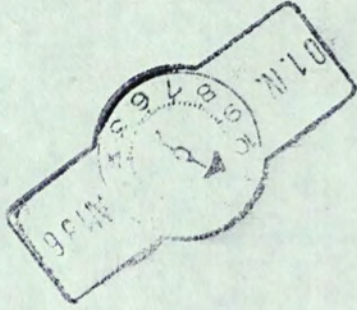
CLB

NB 2 letters

NB fur

Don't know

CIVIL SERVICE: Pay: PE15





CC 95

Cabinet Office

MANAGEMENT AND PERSONNEL OFFICE

From the Minister of State
Privy Council Office
The Rt. Hon. Richard Luce MP

Great George Street
London SW1P 3AL
Telephone 01-233 8610

From: John Fuller

Date: 25 March 1986

RACHEL LOMAX
PS/CHANCELLOR OF THE EXCHEQUER

Dear Rachel,
CIVIL SERVICE PAY 1986

17/3 -

I am sorry to say that we were omitted from the circulation of the Chancellor's minute to the Prime Minister of 17 March, although my Minister is of course a member of MISC 66. The first we heard of the Chancellor's minute was the reference in David Norgrove's minute confirming the Prime Minister's agreement with the line proposed.

This has caused us considerable inconvenience and reduced the Minister's opportunity, as Civil Service Minister, to comment. In the event, we had further difficulties in securing a copy of the correct minute. The Minister is therefore anxious to avoid a recurrence and has asked me to send this minute which I am copying to Private Secretaries of members of MISC 66.

Yours ever
John Fuller

JOHN FULLER
APS/Minister of State

CIVIL SERVICE : pay: PE15

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CUBG

DEPARTMENT OF HEALTH & SOCIAL SECURITY
Alexander Fleming House, Elephant & Castle, London SE1 6BY
Telephone 01-407 5522

From the Secretary of State for Social Services

Mrs Rachel Lomax
Private Secretary to
The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

NBM

24 March 1986

Dear Rachel,

CIVIL SERVICE PAY 1986

My Secretary of State has seen the Chancellor's minute of 17 March to the Prime Minister setting out his proposals for handling Civil Service pay in 1986. He agrees with the negotiating strategy. In particular, he agrees that no commitment should be given on arbitration in line with the position which has been adopted with NHS unions.

I should be grateful if you would let us know if there is any suggestion of a move away from the current proposals.

I am copying this letter to the Private Secretaries to the members of MISC 66, Rob Smith (Department of Education and Science), Robin Young (Department of the Environment), Stephen Boys Smith (Home Office) and Michael Stark (Cabinet Office).

Yours sincerely

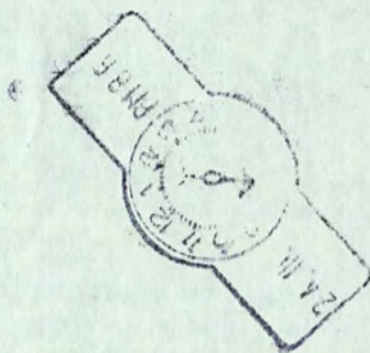
A Laurance
Private Secretary

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CIVIL SERVICE

PAY

PT 15





CCBGF

DEPARTMENT OF EDUCATION AND SCIENCE

ELIZABETH HOUSE YORK ROAD LONDON SE1 7PH

TELEPHONE 01-934 9000

FROM THE SECRETARY OF STATE

CONFIDENTIAL

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
Treasury
Parliament Street
LONDON SW1

NBM

21 March 1986

Dear Nigel

I have seen a copy of your minute of 17 March to the Prime Minister about a negotiating strategy for Civil Service Pay in 1986.

I strongly agree with David Young that 6% must be seen as the absolute maximum limit and that even that outcome will prejudice the running costs regime. The latter point is more than just a grumble: there is no question of my being able to absorb that kind of increase within running costs and I shall expect full compensation.

I am copying this letter to the Prime Minister, the Chief Secretary and Sir Robert Armstrong.

Ernie
Kear

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CIVIL SERVICE

PAY

PT 15



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From: James Harrison, Assistant Private Secretary

JCHG



MINISTRY OF DEFENCE

WHITEHALL LONDON SW1A 2HB

Telephone 01-218 8621 (Direct Dialling)
01-218 9000 (Switchboard)

Minister of State
for Defence Procurement

D/MIN/NL/22/2

20th March 1986

NBP

Dear Private Secretary,

CIVIL SERVICE PAY 1986

Thank you for your letter of 17th March.

In the absence overseas of the Secretary of State, Mr Lamont has seen a copy of the Chancellor's minute of 17th March to the Prime Minister. He has also seen John Lambert's letter of 19th March expressing the views of the Secretary of State for Employment.

Generally, Mr Lamont agrees with the opening tactics proposed by the Chancellor. He shares the hope that it will be possible to achieve a settlement at around 6% although, as the Chancellor acknowledges, developments with the teachers and local authorities will not make the task easy. It is certainly important to keep down the level of settlement as low as is practicable. But it is important, as the Chancellor implies, not to adopt too rigid an attitude but to feel the way forward and to keep options open at this stage. For that reason, he does not believe that the Government should commit themselves at this stage absolutely, to a maximum of 6% or any other figure, or to exclude utterly the prospect of arbitration. Industrial action could be very expensive. The Newcastle strike cost £170m, at very little expense to the Unions. We should see how events develop.

On a more detailed point, Mr Lamont was very glad to see that it is hoped to do something special for the Science Group. Our problems in this area are becoming increasingly serious.

A copy of this letter goes to the Private Secretaries of members of MISC 66, and of the Secretaries of State for Education and Science and the Home Office and to Sir Robert Armstrong.

Yours,

James Harrison

Mrs J R Lomax
HM Treasury

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CIVIL SERVICE

PAY

PT 15



CURF



Caxton House Tothill Street London SW1H 9NF

Telephone Direct Line 01-213 6460

Switchboard 01-213 3000

NABM

Rachel Lomax
Principal Private Secretary to the
Chancellor of the Exchequer
Treasury Chambers
Great George Street
LONDON SW1

19 March 1986

Dear Rachel

CIVIL SERVICE PAY 1986

My Secretary ^{with DN} of State has seen a copy of the Chancellor's minute of 17 March to the Prime Minister.

While he is broadly content with what is proposed, he wishes to make three points. Firstly, it should be recognised at the outset that 6 per cent should be the absolute maximum limit for a settlement. Second, it should be made clear in moving from a first offer to a second offer that arbitration will not be permitted.

Finally, it needs to be recognised that a settlement of the kind envisaged will clearly put at risk the running costs regime. This will particularly affect Departments, such as this one, with an especially high proportion of clerical staff.

I am copying this to Private Secretaries of members of MISC 66, of the Secretaries of State for Education and Science, the Environment and the Home Department, and to Sir Robert Armstrong.

JOHN LAMBERT
Principal Private Secretary

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CIVIL SERVICE: Pay: PE 15.



File



CC: MISC 66

DTI

HMT

M/S, HMT
(Brooke)

DES

MOD

DHSS

DIEMP

PGO

Chare/Duchy/L

M/S, P.C. Off

+ DOE

HO

CO

bc: Prof. Griffiths

10 DOWNING STREET

From the Private Secretary

19 March 1986

Dear Tony,

CIVIL SERVICE PAY 1986

The Chancellor's minute of 17 March to the Prime Minister set out a negotiating strategy for Civil Service pay in 1986.

The Prime Minister has noted that the figures are very much in line with those indicated to the last meeting of MISC 66, and is content, subject to the views of colleagues.

I am copying this letter to the Private Secretaries to members of MISC 66, Rob Smith (Department of Education and Science), Robin Young (Department of the Environment), Stephen Boys Smith (Home Office) and Michael Stark (Cabinet Office).

David

David

(David Norgrove)

Tony Kuczys, Esq.,
H.M. Treasury.

088



Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

D Norgrove Esq
10 Downing Street

19 March 1986

Dear David

CIVIL SERVICE PAY 1986

With apologies, a typing error has crept into the minute from the Chancellor to the Prime Minister, circulated under cover of Rachel Lomax's letter to you of 17 March.

In the last substantive paragraph, "Package B" should read "Package C".

I have copied this letter to the recipients of Rachel's.

Yours ever,

Tony

A W KUCZYS

PRIME MINISTER

CIVIL SERVICE PAY 1986

The Chancellor's minute to you below invites you to agree an opening position in this year's negotiations on Civil Service pay.

It follows very closely the terms set out in the Treasury's paper for the last meeting of MISC 66. These were not formally agreed by MISC 66, though the sense of the meeting was in their favour. (It was, however, noted that some Departments might have difficulty in financing a settlement of the size the Chancellor had indicated.)

The Treasury would like to make the opening offer this week.

Agree the Chancellor's proposal, subject to the views of colleagues?

DNW

MT

DAVID NORGROVE

18 March 1986

SL2AGB

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Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

PRIME MINISTER

CIVIL SERVICE PAY 1986

At the meeting you held on 19 February you asked me to consider and work up a negotiating strategy for Civil Service pay in 1986.

A note by Treasury officials is below. This year we have in effect two negotiations; one with the unions who rejected our long-term pay proposals and one with those who accepted them. At the end of the day we shall wish to reach outcomes not very different for either group, in accordance with the MISC 66 discussion. But the tactics will differ for each group.

For the unions who have rejected our proposals, who have put in claims worth about 17 per cent plus substantial improvements in hours and leave, we would propose to open negotiations on 20 or 21 March with an offer of 5 per cent all round plus something for managerially desirable developments, making a total offer of a little under 5½ per cent.

For the other groups we would wait until we have the OME report, which we understand will show a lower quartile of 5½ per cent and a median of 6¼ per cent. We would make an offer to them, probably just after Easter, worth a touch above the lower quartile, and at the same time improve our offer to the first group. Thereafter we would see how things go, but I would hope it would be possible to come to an end result worth around 6 per cent overall.

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One point not discussed in the note by officials is the question of arbitration. I understand that already the Civil Service unions have asked for an assurance that if there were disagreement on the pay negotiations arbitration would be available. We have said we can give no such undertaking. I think this must be right. We shall need to consider, perhaps at some later stage, what our attitude would be to the inevitably repeated demand for arbitration which we shall have before we are through, but I do not think the opening offer proposed would be affected by this. Without prejudging a decision here, my instinct will be that, as in previous years, we should refuse arbitration, on the grounds of public policy (public expenditure control) and having regard to the fact that our long-term pay proposals put to the unions in November made it clear that we regarded arbitration by joint agreement as the right approach. But this is a matter which we need not settle now.

Unless you or other colleagues see otherwise, I propose to authorise my officials to proceed to an opening offer on the lines of Package A in the paper below worth under 5½ per cent, and to negotiate thereafter so as not to emerge at more than 6 per cent as shown in Package ^C~~B~~. This may not be easy, given what teachers and local authorities have recently settled at, and I will keep my colleagues in touch with how things go.

I am copying this minute to the other members of MISC 66, to the Secretaries of State for Education and Science, the Environment and the Home Department and to Sir Robert Armstrong.

A handwritten signature in black ink, appearing to be 'N.L.' with a flourish.

N.L

17 March 1986

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CIVIL SERVICE 1986 PAY

NOTE BY TREASURY OFFICIALS

At its meeting on 19 February MISC 66 invited the Chancellor of the Exchequer to arrange for the OME to complete its analysis of the pay movements in the private sector and to report that work to the Group, and also invited the Chancellor to prepare proposals in the light of that analysis for an opening offer and negotiating tactics, for further consideration by the Group. Summing up the discussion, the Prime Minister said that the Government's long-term proposals, based on the Megaw Report, would have provided a fair framework for negotiating Civil Service pay and the Group therefore inclined towards giving those unions which had been prepared to accept it the benefit of the arrangements; as for the other unions the Government should negotiate 1986 with these principles in mind but should make no commitment about arrangements for subsequent years.

2. Against that background this note considers possible ways forward.

The OME work

3. The OME work has not been completed yet, but we know that the quartiles are going to be. The lower quartile emerges at $5\frac{1}{2}$ per cent, the upper quartile 7 per cent and the median at $6\frac{1}{4}$ per cent. These figures compare with, respectively, 5 per cent, 7 per cent and 6 per cent as found in 1984.

Elements in the 1986 negotiations

4. As usual there are basically two elements in the structure of the 1986 Civil Service pay negotiations, thus :-

- a. What might be described as the "basic" pay increase; thus so much per cent coupled with an underpinning for the adult

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lower paid (there is no economic sense for this, but it has minimal cost, and is presentationally helpful in negotiations.) In addition the "basic" increase must include provision for pay increases, usually a reflection of the basic increase, in ancillary elements such as overtime and allowances and whatever London Weighting is increased by.

b. Further increases relating to developments which are managerially desirable; this year we have the very large clerical officer restructuring, and an increase in pay for Accountants. In addition, also in accordance with MISC 66 indications, we look to do something for Scientists.

5. The two elements overlap. In particular, this year, again in accordance with MISC 66 indications, it is proposed to do something more than average for all three London Weighting zones, reflecting problems we have in recruitment and retention of staff in London; this could fall into either (a) or (b) above. On top of that there are the special problems relating to the IPCS and POA grades, who indicated an acceptance of our long-term pay proposals, and who therefore will be expecting at least the lower quartile, howsoever calculated, for the grades they represent.

A negotiating strategy

6. It is necessary to distinguish between an opening offer or offers and a final position; and to consider the path from the one to the other. Past patterns have been as follows; in 1984 we opened at 3 per cent, moved to 3.7 per cent and finally closed (after a very long and difficult pause) to 4.55 per cent; in 1985 we opened at 4 per cent, moved to 4.4 per cent and finally closed at 4.9 per cent. Civil Service unions are thus accustomed to seeing not very much movement (allowing for the somewhat artificial opening point in each of the two years) and not many moves; and they are also accustomed to noting that when the Government call an offer "final", that is precisely what it is. We need to build on

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ANNEX

	A	B	C
Free Bargaining Unions (CPSA, SPCS, IRSF, CSU, FDA)			
<u>Basic offer</u>			
Percentage increases	5	5.25	5.50
Underpinning (£pw)	4	4	4
	—	—	—
Average increase (%)	5.01	5.25	5.50
<u>Management initiatives</u>			
Clerical restructuring (%)	0.34	0.34	0.35
Additional London Weighting (%)	-	0.19	0.18
	—	—	—
Average value (%)	0.34	0.53	0.53
	—	—	—
<u>Total value of proposal (%)</u> for these groups	5.35	5.78	6.03
Pay Agreement Unions (IPCS, POA, SPOA) (See note)			
Percentage increase	-	5.25	5.50
Special increases (restructuring) (%)	-	0.26	0.27
Additional London Weighting (%)	-	0.12	0.12
	—	—	—
<u>Total value (%)</u> for these groups	-	5.63	5.89
	—	—	—
Overall Service-wide increase (%)	-	5.75	6.00
	—	—	—

Note: No offer made to this group at this stage.

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