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Oddi wrth yr Is-Ysgrifennydd Seneddol
CT/5171/86

1 May 1986

From The Parliamentary Under-Secretary

Dear Nigel,

PAY OF NHS STAFF

I have seen the letter from Norman Fowler dated 24 April about the implications of the latest offer to the Civil Service on the National Health Service. This follows closely on the correspondence between Barney Hayhoe and John MacGregor and I must say that I entirely share Norman's view that we cannot expect to conclude settlements at much below the Civil Service level even if this means easing the financial constraints on the Health Service.

I am copying this letter to the Prime Minister, others members of MISC 66, the Secretaries of State for Scotland, Social Services, Education and Science, Environment and Home Office and to Sir Robert Armstrong.

Tommy, ever,
Mark
MARK ROBINSON

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



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

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

Mr
Dear Nigel



April 24
Prime Minister 2
JRS
25/4

CIVIL SERVICE PAY 1986

File with ON

I have seen your minute of 21 April to the Prime Minister. I can see the advantages of your latest proposal and, from the point of view of Departmental management I would support them. The financial position will be difficult and I may be having to seek help later in the year, particularly on account of the disproportionate effect on this Department of the clerical restructuring.


However, what concerns me is that the increased offer which you propose will have unavoidable and unwelcome implications for the NHS. As you will know, our 1986 Whitley negotiations are already difficult against the background of last year's Local Government settlements and the general level of current settlements to which you refer. The latest news that the Local Government employers are considering a further very generous, and early, offer to the manuals suggests that the difficulties could increase. Settlements in the NHS are most unlikely to be significantly below whatever level is conceded to the Civil Service. As you know, the amount available from this year's cash increase to English health authorities to fund pay and price increases is 4.5 per cent. In addition, some of the savings from the cost improvement programme could be diverted to fund pay increases. But even taking this into account, I consider that the most that health authorities can afford to fund from their own resources is 5½ per cent. Although that will be controversial and will be seen by authorities and the public as a substantial erosion of planned services.

E.R.

I recognise the pressures for a settlement with the Civil Service. But we shall lose all the benefits of that course of action if we provoke a NHS dispute or if we attempt to force the NHS to absorb higher pay costs within existing resources. Thus, while agreeing to your proposals for the Civil Service, I must register with you my own conviction that the financial constraints on the health service will need to be eased sufficiently to enable us to conclude settlements which are in line with those for the Civil Service. As you know, our officials have been in touch about ways in which this might be achieved without additions to cash limits by reducing employers' contributions to the NHS Superannuation Fund in accordance with the Government Actuary's latest valuation.

The presentation of your offer will be of some importance from a NHS point of view. I hope there may be further discussions between officials about that.

I am copying this letter to the Prime Minister, other members of MISC 66, the Secretaries of State for Scotland, Wales, Education and Science, Environment and Home Office, and to Sir Robert Armstrong.

Yours

Norman Fowler

NORMAN FOWLER

Civil Service : Pay
PE-15



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Cabinet Office

MANAGEMENT AND PERSONNEL OFFICE

WGB

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

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

David Norgrove Esq
Private Secretary
10 Downing Street

NBP

23 April 1986

Dear David -

CIVIL SERVICE PAY 1986

The Chancellor of the Exchequer sent the Minister of State a copy of his minute of 21 April 1986 recommending agreement to the 6% pay settlement suggested by the major Civil Service unions.

Before he left for China, the Minister of State asked me to let you know that he saw considerable value in such a settlement, particularly if it could be agreed quickly, and that he strongly supports the Chancellor's proposal that the Government should go along with it. As regards the additional cost of managerial developments there are a number of exercises in train, as the Chancellor noted, which have either been agreed or will need to be brought to agreement, including the review of the structure of the Science Group. Beyond that it is clearly right that such developments should be kept to a minimum.

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

*Yours ever
John Fuller*

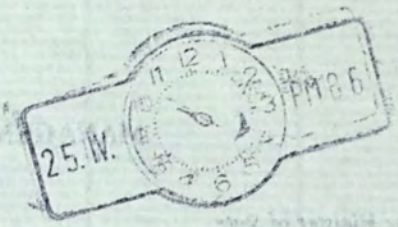
JOHN FULLER
Assistant Private Secretary

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CIVIL SERVICE : pay : A15.



UNITED KINGDOM OF GREAT BRITAIN
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London SW1P 3PA
Telephone 01-275 5000

From the Director of
Civil Service
The Post Office, London SW1P 3PA

COMMUNICATIONS

1966



ce 39

MO 20/17/6E

Ronnie Minister²

revised

The Kemp made the offer to the unions this morning. It was apparently quite well received.

[Handwritten initials]

PRIME MINISTER

DLS
27/4.

CIVIL SERVICE PAY 1986

1. In his minute to you of 21st April 1986, the Chancellor of the Exchequer sought agreement to offer the Civil Service Unions a straight 6% plus a number of managerial developments which are already under discussion and which will add to the total pay bill.

2. I support this proposal. The offer will not be regarded as generous by the Civil Service but I believe that public opinion will generally regard it as fair, especially in view of the latest and prospective RPI figures. There is also a considerable advantage in achieving a quick and agreed settlement for the reasons that the Chancellor gives in his minute.

3. On a point of detail, I do not think that we should tie our hands in advance in relation to any new special pay arrangements we may find it necessary to introduce in the forthcoming year.



In the defence field we face some critical shortages in some particular skills and disciplines. Furthermore some of the best members of the middle grades in the Civil Service including Administrators, Scientists and Engineers are leaving our employment to receive salaries that are 30-50% higher than we can offer plus all the private sector trimmings. We must retain managerial freedom to deal with this kind of situation. For their part the Civil Service Unions would like to prevent such action as it tends to weaken the strength of their general pay claims.

4. I would like to give further thought to our long term pay proposals for the Civil Service after this year's arrangements have been settled. In my view our policy should be primarily dictated by what we consider to be best for the Civil Service, rather than what can be agreed with the Civil Service Unions, whose officials have a vested interest in maintaining free-collective bargaining because it gives them a bigger part to play. There is a fundamental and undesirable inconsistency about the present situation, in which some public sector employees are covered by review bodies and long term pay arrangements, and others, who may be doing the same work by their side, are not.



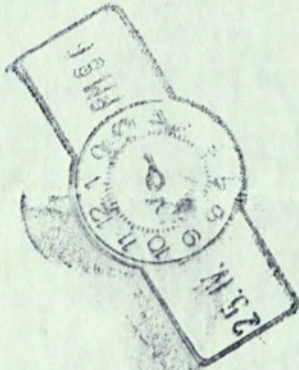
5. I am sending copies of this minute to other Members of MISC 66, to the Secretaries of State for the Home Department, Education and Science and Environment and to Sir Robert Armstrong.

C.Y.

Ministry of Defence

23rd April 1986

Civil Service: Pay - PE15



CCB/G

PRIME MINISTER



NBPP.

CIVIL SERVICE PAY

I do not demur from the Chancellor's proposed offer on Civil Service pay. However we must be aware of its implication for local government pay.

The Chancellor refers to local authority settlements already made. But negotiations on the next pay round are now under way, and there must be the danger of repercussion there. There is, for example, a prospect that the employers will agree to a 6% offer for the local authority manuals as from 1 September when they meet on 13 May. I have in mind meeting representatives of the employers to express concern about that; but it seems doubtful whether this will achieve very much in the light of the Government offering 6% to its own employees. There is also the question of the local government APT&C claim, on which negotiations for this round are about to start.

I recognise that there are arguments for different treatment as between the Civil Service and local government. It is true that Civil Service increases have been relatively modest in recent years - though only marginally lower than those for local government APT&C staff. But the fact that the costs of Civil Service pay increases are constrained by running cost limits distinguishes our approach to pay costs sharply from that of local government. It will be important to make as much as we can of these arguments to try to justify the Civil Service pay increases and to distinguish between the situation of the Civil Service and local government staff.

I am copying this to members of MISC 66, to Keith Joseph, Douglas Hurd and Sir Robert Armstrong.

k.s.

K B

23 April 1986

Civil Service: Pay Pts



VC4 AGG

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Misc 66

CDL

D/M

FCO (Luce)

DTI

(HMT)

DES

MOD DHSS

From the Private Secretary



bc Griffiths

10 DOWNING STREET

22 April, 1986.

CIVIL SERVICE PAY 1986

The Prime Minister was grateful for the Chancellor of the Exchequer's minute of 21 April about this year's Civil Service pay negotiations.

The Prime Minister agrees, subject to the views of colleagues, that an offer of 6% plus one-third of a per cent for restructuring, though higher than the Government would wish, is worth making in the interests of securing a quicker and relatively unacrimonious settlement.

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

DAVID NORGROVE

Mrs Rachel Lomax
HM Treasury.

RL

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018
CONFIDENTIAL

ccBG



Chancellor of the Duchy of Lancaster

CABINET OFFICE,
WHITEHALL, LONDON SW1A 2AS

Tel No: 233 3299
7471

22 April 1986

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
LONDON
SW1 3AG

NBLA

D. Nigel

CIVIL SERVICE PAY 1986

In PM's Box

Thank you for sending me a copy of your minute of 21 April to the Prime Minister.

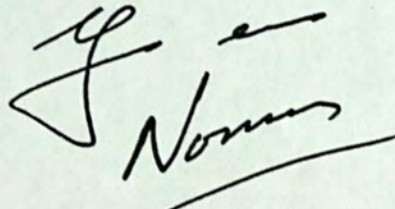
I agree with the view you take of the proposal that we should move to a final offer of 6 per cent, in order to achieve a resolution to these negotiations without recourse to strike ballots or arbitration. Public sector pay settlements in this pay round are at a difficult stage. There is a worthwhile gain to be made, if we can now achieve a major pay settlement in the public sector, by agreement, which is much more in line with private sector settlements, rather than allow the benchmark for negotiations solely to be that of the local authority manual workers.

I am sure that the 6 per cent offer, set out in your paragraph 2, is as far as we should go, and we should be careful to make sure that a settlement is expressed in terms of that figure, not including the cost of clerical restructuring. It is, in my view, important that a settlement should be reached at a figure between the lower quartile of 5½ per cent, and the median at 6¼ per cent. It could be a damaging precedent for future years if the median figure were offered.

I am therefore in support of what you propose. It will be a refreshing change from previous years for an early settlement, relatively free from acrimony, to be reached, and for the increase to reach pay packets soon after the due settlement date. I would

expect it to ease somewhat our difficulties with motivation and morale in the Civil Service.

I am sending a copy of this letter to the Prime Minister, to other members of Misc 66, and to the Secretaries of State for the Home Department, and Environment, and to Sir Robert Armstrong.

A handwritten signature in black ink, appearing to read 'Norman Tebbit', with a large, stylized initial 'N' and a long horizontal flourish extending to the right.

NORMAN TEBBIT

CIVIL SERVICE

PAY

PT 15



P. E. S. G. G. G.



per Civil Service

Deputy Secretary to the Treasury

pay.

Mr D. D. D.

D. D. D.

There is a recent
year but record,
lying behind the
record - see ch/102 note on
today, that C-S - settle to
have been "very modest".

D. D. D.

2/1/4

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COMPARISON OF CIVIL SERVICE AND PRIVATE SECTOR NON-MANUAL PAY SETTLEMENTS

PAY ROUND	PERCENTAGE INCREASE IN RPI April on previous April	PAY SETTLEMENT (PERCENTAGE)				
		NON-INDUSTRIAL CIVIL SERVICE (1 April)	PRIVATE SECTOR NON-MANUALS			SOURCE
			LOWER QUARTILE	MEDIAN	UPPER QUARTILE	
1982:1983	4.0	4.86	5	5 ³ / ₄	6 ³ / ₄	Note 1
1983:1984	5.2	4.55	5	6	7	Note 2
1984:1985	6.9	4.9	5 ¹ / ₂	6	6 ¹ / ₂	Note 3
1985:1986	4.2	[6.0]	5 ¹ / ₂	6 ¹ / ₄	7	Note 4
CUMULATIVE TOTAL	21.9	21.9	22 ³ / ₄	26 ¹ / ₄	30 ¹ / ₄	

NOTES

1. DE confidential analysis of settlements between 1.8.82 and 31.7.83; excluding Wage Councils: NOT TO BE RELEASED.
2. OME survey of settlements between 1.4.83 and 31.1.84.
3. DE confidential analysis of settlements between 1.4.84 and 31.3.85; excluding Wage Councils: NOT TO BE RELEASED.
4. OME survey of basic pay settlements between 1.4.85 and 31.1.86.
5. These are settlements rather than increases in earnings; earnings "drift" in the Civil Service tends in general to be less than that in the private sector.

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

PRIME MINISTER

CIVIL SERVICE PAY 1986

In my minute of 17^{at 11am} March I set out a negotiating strategy for Civil Service pay in 1986. Your Private Secretary's letter of 19 March agreed to this way forward subject to the views of colleagues, who were content.

Most of the unions demanded about 17 per cent. We offered 5 per cent plus the clerical restructuring and one or two other extras making about $5\frac{1}{3}$ per cent. This was rejected. Since then my officials have been in intensive and rather difficult negotiations within the umbrella of the overall service-wide 6 per cent increase discussed in my note of 17 March; broadly we were thinking about a core increase of $5\frac{2}{3}$ per cent plus the cost of the restructuring and the other extras, making an overall 6 per cent. This itself is a little above the bare minimum that would meet our earlier decision to act - for this year only - as if our long term pay proposals were in place. This would require an offer worth at least a lower quartile of $5\frac{1}{2}$ per cent; strictly we could seek to include the clerical restructuring in this, but for this year this would be very difficult. So the minimum in front of us is about 5.8 per cent, including the restructuring.

Informal soundings showed that this idea of 6 per cent ($5\frac{2}{3}$ per cent + $\frac{1}{3}$ per cent) would also be rejected. Somewhat surprisingly, however, five of the unions (the CPSA, CSU, IRSF, Society, and Northern Ireland Public Services Association) which include three of the biggest Civil service unions and between them represent over 400,000 non-industrial civil servants, have come forward and told us that if we could make the $5\frac{2}{3}$ per cent up as far as 6 per cent, they were sure that their executives would



recommend acceptance. My officials were told that anything less than this would require them to go to strike ballot, even though few of them think they would get a majority for action; and they would also have to ask for arbitration, which they recognised would be turned down as in previous years but which they calculate would cause some embarrassment. They also see value in terms of employer-employee relationships, as indeed I think we do, in an acceptance rather than virtual imposition as in the last two years, and in helping to keep the long term pay initiative alive.

A full 6 per cent is higher than we could wish. But on balance I think that it is a proposal we should go along with. It will be seen as generous in some quarters, especially given the latest and prospective RPI figures. But this should be more than offset by the perception that Civil Service pay settlements have been very modest in recent years, by our determination to keep within running costs (which I discuss further below), by the fact that private sector settlements are still averaging in excess of 6 per cent, and in particular by the figures found by the study we commissioned from the Office of Manpower Economics (a lower quartile of 5½ per cent, a median of 6¼ per cent and an upper quartile of 7 per cent). It also has to be seen against the pace set by the recent local authority manual settlement (8 per cent) and the teachers (6.9 per cent end loaded to 8.5 per cent). For some forthcoming public service groups (eg Review Body groups) it could indeed be seen and used by us as a ceiling rather than a floor.

I have considered the public expenditure implications. I appreciate that the main Civil Service pay settlement we are now discussing is not the only additional pay cost which departments are facing for 1986/87. Over and above the 6 per cent I now propose there have been a number of managerial developments already agreed or in the course of agreement which have a cost - the clerical restructuring, the upshots of reviews of the secretarial and legal grades, improvement in ADP allowances, the restructuring of the



professional and technology class, and some special treatment for accountants and scientists. These are all well worth while in their own right and either bring about managerial benefits (eg the clerical restructuring will greatly help to introduce new technology to departments) or are for essential recruitment and retention reasons. Last year was an exceptional year for these sort of developments. And as part of any present proposal, I would hope to see none in the forthcoming 12 months which might add to 1987/88 running costs beyond what has already been agreed or committed. If for exceptional reasons we do agree to any such additions these must be included within the main pay settlement for 1987. We shall put the Civil Service unions on notice to this effect.

The additional costs we are talking about to achieve an agreed settlement are perhaps an extra £15m per annum over and above the 6 per cent proposal set out in paragraph 2 above, or perhaps £25 million over what is probably the realistic absolute minimum of 5.8 per cent, spread over all departments. Of themselves, these are not very material in total running costs of over £12 billion, but they add to existing pressures. We have all along acknowledged that such pressures might arise, but we have agreed that since the main purpose of moving to running costs control was to establish realistic but demanding limits for administrative costs, these limits should be made to hold. This means that I expect departments to take now any necessary steps to enable them to live within the total set in the Estimates. I believe that there is scope to do this, though it will be more difficult for some departments than others. If later in the year any particular department finds that the consequence of offsetting action would create unacceptable problems, John McGregor would be prepared to consider them. But I have to say that colleagues will find him taking a very tough line.

Against this background, my view, as I have already indicated, is that, on balance, the deal offered to us by these five unions,

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although dearer in immediate terms than we might wish, should not be turned down. An agreement would be worth having after years of strife. While there could still be some loose ends with the other unions, it would enable a swift and generally clean end to this year's negotiations. Strike ballots are chancy things and is is getting increasingly awkward to turn down arbitration year after year. Moreover, an agreed settlement this year puts us in a stronger position to get a peaceful and economical settlement next year. Events elsewhere - eg the position with the Prison Officers (who are civil servants but who are not directly involved in this deal), the fragile teachers' talks, and the question of the Review Body reports - point to a quick solution on the basis proposed, not only for its own sake but also as obviating the risk of a more costly outcome, one way or another, later on. Hence my feeling is that we should go forward on the basis proposed, and I hope that you and colleagues will agree. I would like to clinch this in the course of this week.

Whatever we decide it is clear that we should need to consider carefully the future of our long term pay proposals. This year shows that a half-way house - some unions in, some unions out, and our behaving as though we were bound - has problems. I think we shall have to make it clear when this year's negotiations are out of the way that for next year we either have a proper agreement with all the unions, or we are back to free collective bargaining, with no OME survey. It may be possible to have a separate agreement of a different kind with individual unions but I rather doubt it.

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

Rachael Hornax

N.L.
(21 April 1986)

(approved by the Chancellor & signed in his absence)

CIVIL SERVICE Pay PTIS

