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Prime Minister  
Agree the Chancellor's proposal for an offer of 6% + 1/3% for restructuring, subject to the views of colleagues?

PRIME MINISTER

17 April 1986

*Yes No*

CIVIL SERVICE PAY

*DLW  
21/4.*

The Civil Service union leaders have indicated that they would resist 5 2/3% but accept an offer of 6%. Peter Kemp at the Treasury believes they can deliver their union executive committees and should get 6% through the membership. Ignoring any knock-on effects the extra bit would add some £15m to the annual wage bill.

The unions are unlikely to strike if we stuck at 5 2/3%, but morale would fall, anti-Government feeling rise, and next year's pay settlement be more difficult. A lower offer would cause delay and result in overlap with the Pay Review Body Reports. It would also give the opportunity for the prison officers to merge their industrial action over numbers with the pay issue.

A 6% offer would make life more difficult in the health service negotiations, but equally a lower offer leading to unrest in the Civil Service might encourage the health service unions to join forces in a more militant line.

Now is the best time to clinch a deal, an offer of 6% is psychologically much more acceptable than any offer starting with a 5. We recommend the Chancellor should offer the 6% conditional on the negotiators recommending acceptance.

*Peter Warry*  
PETER WARRY

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these expectations.

7. A complication is that some of the unions have rejected our long-term pay proposals and others wish to negotiate on them. This means a distinction is necessary at least in negotiating terms, even if the end result is not very different.

8. The Annex to this note shows 3 packages. So far as opening offers go, we think A which so far as the basic element goes has a nicely simple "5 per cent all round" pattern about it is a reasonable position; anything lower would be difficult, while anything higher would apart from anything else leave little negotiating room; the overall figure (5.35 per cent) is pretty close to what the lower quartile will turn out to be. This offer would go to the "free bargaining" unions only (offers would only be made to the "pay agreement" unions at the next stage, when the OME report was available).

9. So far as a closing position goes, we would have to see how the negotiations went, and we would hope to get out at around 6 per cent overall as shown in Package C. This would be made up of  $5\frac{1}{2}$  per cent basic plus another  $\frac{1}{2}$  per cent for managerially desirable initiatives. This is within the letter of our long-term pay proposals, being worth overall more than the lower quartile, but we may have some difficulty nevertheless with those who feel that an increase of  $5\frac{1}{2}$  per cent basic - exactly the lower quartile - is too low. We shall need to explain the worth of the addition which takes the package up to 6 per cent.

10. In addition, we should bear in mind that some decisions have already been taken which will increase the 1986-87 pay bill, worth about 0.60 per cent overall. It will be important, when we consider the total value of pay increases, not to let these be overlooked.

Affordability

11. So far as affordability goes, course C would increase departments pay bills by about 6 per cent. To this must be added increases already agreed centrally, and a further amount for changes which occur at

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Departmental level (overtime, structural changes and allowances, etc). Our judgment is that Departments should be able to absorb the resulting increases. Some will say this is difficult, and a few may even have real grumbles. But we think that overall a figure of around this order should be tolerable.

Timing

12. We have now received a claim from the FDA for 17 per cent, and a consortium claim from the CPSA, CSU, Society and IRSF, for £10 per week plus 10 per cent, again worth about 17 per cent. There is also a substantive claim for improvements in hours and leave. We have discussed these claims with their sponsors. So far as the IPCS and the POA go, we have no claim at all yet, nor are we expecting one until we are ready and able to release the OME work. In one sense time is on our side in that the expected path of the RPI, showing falling figures month by month, should be helpful. Against that it is generally desirable, and this was certainly endorsed by MISC 66, to seek to get pay increases into pay packets as soon as possible after the effective date for the review, and the developments at GCHQ may point in the direction of speed also. We should however want to keep in close touch with other public service negotiations.

13. This points to an offer to the consortium of CPSA, Society, CSU and IRSF, in the week starting 17 March. Negotiation with IPCS/POA would follow when the OME report was available. The precise path cannot be foretold at this stage, but if things went well it should be possible to reach agreement, or at least acquiescence, before the end of April.

Summary and Conclusions

14. The OME quartiles give scope for relatively low opening and closing offers within the spirit of our long-term pay proposals. It is proposed to open with 5.0 per cent as the basic increase or under 5.5 per cent with management initiatives added in. We would hope to finish with something worth around 6 per cent overall, made up of 5.5 per cent basic plus about  $\frac{1}{2}$  per cent on top. An opening offer would be made in the

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week beginning 17 March, and negotiations etc thereafter taken forward in the light of developments, with the aim of concluding affairs before the end of April. We would maintain contact with other Departments mainly interested, and report to Ministers as need be.

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