



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

PRIME MINISTER

CIVIL SERVICE PAY: THE GOVERNMENT'S OPENING OFFER

At its meeting on 15 February the Ministerial Group on Civil Service Pay Negotiations (MISC 66) considered in detail the Government's opening offer in the 1983 non-industrial Civil Service pay negotiations (MISC 66(83)2nd Meeting). This minute reports the outcome.

2. The main considerations which bear on the decision about the shape of the Government's opening offer are as follows. First, there is the room for manoeuvre within cash limits. For the purposes of cash limits pay and general administrative expenditure are taken together. In the last two financial years Departments generally have been comfortably within their cash limits, despite pay settlements higher than the cash limits pay factor. The position is somewhat more constrained in the present financial year, although taken overall Departments should still be well within the aggregate of their cash limits. For 1983-84 the Treasury forecasts that in aggregate Departments should be able to accommodate a pay settlement of 4½ per cent within the existing cash limits. But one or two large Departments, principally the Department of Health and Social Security, would have difficulty in accommodating a pay increase greater than 3½ per cent.

3. Second, there is the question of what we would regard as an acceptable outcome to the negotiations. MISC 66 agreed that in the light of developments elsewhere it was reasonable to aim at a settlement in the range 4-4½ per cent. It seems unlikely that a

/settlement



settlement below this would be negotiable; and we cannot assume that arbitration would produce it, given the level of settlements elsewhere. So any attempt to settle below this level would almost certainly involve imposition with potentially serious industrial relations consequences.

4. Finally, there is the Government's commitment to hold genuine negotiations this year, which in the view of MISC 66 pointed to an opening offer leaving scope for an increase of $\frac{1}{2}$ -1 per cent in negotiation; and there is the general industrial relations situation in Departments, which in the view of MISC 66 strongly suggested that our opening offer should not involve increases below 3 per cent for any significant group of staff.

5. In the light of these considerations the Group concluded on balance that the Government's opening offer should be worth $3\frac{1}{2}$ per cent in total, but with a number of variations which I describe below. Some members of the Group felt that an opening offer closer to 4 per cent, although still below that figure, would increase the chances of a negotiated settlement. But a majority of the Group felt that to open higher than $3\frac{1}{2}$ per cent would give the wrong signals to the Civil Service trades unions and to the staff, and might also have undesirable wider ramifications in view of the way the pay negotiations in the water industry and for the local government manual workers are developing.

6. The Group also agreed that the Government's opening offer on pay should be structured along the lines of the 1982 arbitration award. That is, those at the top of their pay scales would be offered $3\frac{1}{2}$ per cent; those on intermediate pay scale points would be offered 3 per cent; and those at the bottom of their pay scales would be offered $2\frac{1}{2}$ per cent. (Only a relatively small number of staff will receive an offer of $2\frac{1}{2}$ per cent and the recruitment and retention position fully supports an offer on these lines.)

/An offer



An offer structured in this way would be worth in total $3\frac{1}{4}$ per cent on pay. This would leave $\frac{1}{4}$ per cent of the paybill, which would enable us to include a number of desirable additional elements in the offer. These features, which I describe below, are generally worthwhile on their own merits for management reasons. They also provide ample scope for negotiation with the unions, thereby ensuring that the negotiations are prolonged until after the Budget; and different elements will appeal particularly to different staff groups and trades unions, thereby making it more difficult for the trades unions to unite in opposition to our offer.

7. The four additional elements which we have in mind are as follows:-

- a. the inclusion of London Weighting in the main pay negotiations and a modest restructuring of it;
- b. the alignment of pay between different professional groups at the Assistant Secretary and Senior Principal levels;
- c. rationalising age-related pay; and
- d. rationalising pay scales at the Executive Officer and Clerical Officer levels.

8. The most important of these is London Weighting. The decision to abandon the publication of the London Weighting Index means that negotiations on London Weighting can be included in the main pay negotiations. The Group agreed that this would be desirable. We also agreed that there should be a modest restructuring of the present system. What we have in mind is the creation of an intermediate zone between the present inner London and outer London Weighting zones. Views on the merits of this proposal were divided. It would help to ease the management problems faced by some Departments

/who



who have offices just outside the present inner zone boundary. But some members of the Group, particularly the Secretary of State for Defence, felt that it might increase rather than reduce the present management problems in London. On balance the Group agreed that the advantages were greater than the potential disadvantages. But if the trades unions object strongly to the proposed structural changes, we should be ready to withdraw that aspect of the offer.

9. In order to provide a realistic differential between each of the three proposed London Weighting zones, the rate for the new intermediate zone would have to be set at about £750 per annum. This would mean that no increase would be possible in 1983 in the present rate of outer London Weighting (£500), which would anyway be consistent with the present recruitment/retention position. Further consideration will have to be given in due course to what increase might be possible in the rate of inner London Weighting in the light of data on the market position and the likely total cost of the 1983 pay settlement. The Group also agreed that age differentiation should be introduced into London Weighting for those below the age of 20. This would follow the practice already established by local authorities and by the electricity supply and gas industries; and it would also be consistent with our general policies on the pay of young people. The London Weighting rates which the Group had in mind, which might need to be varied slightly .. in negotiation, are annexed to this minute.

10. The other three proposals to which I referred in paragraph 7 above involve detailed changes in pay scales. A simplification of the pay system would be desirable on management grounds; and these proposals would also be important in achieving wider objectives including the introduction of unified grading at the Assistant Secretary and Senior Principal levels as proposed by the Lord Privy Seal in her letter of 21 January and the manpower reductions and organisational changes being sought by the Inland Revenue. The pay increases involved for some staff would generally be modest;

/and



and in some cases pay reductions would result for new recruits and promotees. The only proposal with a significant cost would be the rationalisation of pay scales at the Executive Officer and Clerical Officer levels. This might cost £6.3 million a year in total. For that reason the Group agreed that the Government's opening position should be that the changes here would be phased in over more than one year.

11. The first meeting with the trades unions took place on 11 February when the Government Side merely explored the trades unions' claim. The next meeting is likely to take place next week. This will probably again be exploratory, although our negotiators will probably wish at that stage to give notice of the intention to include in the negotiations the four additional elements to which I referred above. The Government's opening offer on pay is therefore unlikely to be tabled until early in March.

12. I should be grateful to know that you are content that the opening offer should be as I have described.

13. I am sending a copy of this minute to members of MISC 66, to the Minister of State, Treasury (Mr Hayhoe) and to Mr Sparrow and Sir Robert Armstrong.

(G.H.)

17 February 1983

SECRET



ANNEX

The proposed pattern of London Weighting allowances is as follows:-

£

	<u>Inner zone</u>	<u>Intermediate zone</u>	<u>Outer zone</u>
Age 20+	1250	750	500
Age 19	1000	600	400
Age 18	750	450	300
Age 16/17	500	300	200



10 DOWNING STREET

cc HMT (2)
moD
DHSS
WPSO
DIM
CPRS
CO

12 JP

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bc JV

From the Private Secretary

24 February 1983

CIVIL SERVICE PAY

The Prime Minister was grateful to the Chancellor for his minute of 17 February about the Government's opening offer in the forthcoming negotiations.

The Prime Minister agrees to the Chancellor's proposals. She has commented that the negotiators should be told that their margin for manoeuvre is very small: only up to 4 per cent.

I am sending copies of this letter to the Private Secretaries to members of MISC 66, to Harry Bush (Office of the Minister of State, HM Treasury), Gerry Spence (CPRS) and Richard Hatfield (Cabinet Office). I would be grateful if you and they would ensure that it is not copied, nor circulated, outside Private Offices.

M. C. SCHOLAR

Miss Margaret O'Mara,
HM Treasury.



10 DOWNING STREET

Prime Minister

①

I'm not sure if you

agree to the Chancellor's

proposals, subject to X in

John Vercher's note?

MCS 21/2

SECRET

Prime Minister ①

17

PRIME MINISTER

CIVIL SERVICE PAY

Please see the Chancellor's minute
(attached).

Agree to his proposals, subject to X?

There are two central judgements in the Chancellor's proposals:
the opening offer, and the likely settlement. I do not think you
need to concern yourself with the additional elements described
in paragraph 7.

Hus 18/2

I think the arguments in favour of an opening offer averaging
three-and-a-quarter percent, with quarter percent for the additional
elements, are convincing. Anything lower would simply not be
believed, given the 3½% cash limit.

But I do not think we should at this stage agree to the expectation
of "a settlement in the range of 4-4½ per cent" (paragraph 3), which
means up to 4½%. The Chancellor himself made it clear to Cabinet
yesterday how much importance he attaches to keeping pay down. If
Ministers accept 4½% now, it'll be 5% when the negotiations get
tough. I think the negotiators should be told that their margin
* | for manoeuvre is very small: only up to 4%. We can give them the
extra ½% later if necessary.

18 February 1983