

SECRET

Prime Minister

cc Mr. Mount

18

MR. SCHOLAR

MS 22/3

CIVIL SERVICE PAY

Discussion in MISC 66 today envisaged a negotiated settlement which would increase average earnings by up to 5%, with a bias towards the lower paid in the shape of a £40-50 per annum for all grades except juveniles. The upper limit of the average increase is $\frac{1}{2}$ % higher than that previously agreed in MISC 66, 1% higher than the Prime Minister's negotiating limit.

The principal questions for the Government are:

- i. Is a settlement of up to 5% the very lowest which can be achieved?
- ii. Can it be presented credibly in view of the NHS settlement?
- iii. Is the degree of bias towards the lower paid acceptable, in view of labour market and management considerations?

The Treasury advise that a negotiated settlement of just under 5% is just possible: it would be in line with the local authority manuals' settlement, and the expected Scottish teachers' settlement. I would judge that a slightly lower negotiated settlement might be possible, but not as low as $4\frac{1}{2}$ %. Arbitration would probably result in a verdict of 5.2-5.3%, which the Government would be under a lot of pressure to accept.

On presentation, it would be difficult for the Government to be seen to settle on its own employees, without a struggle, an increase which is higher than that awarded to the NHS employees after a long and bitter dispute. This point argues for holding to $4\frac{1}{2}$ %, leaving it to the arbitrator to award the higher figure. This could result in a marginally higher settlement but would maintain credibility.

The proposed shape of the settlement would accommodate the unions' preference for a bias in favour of the lower paid but it runs counter to our policy of trying to price young people back into work and could establish a minimum money increase in the economy. The only

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justification for accepting the unions' view of the shape of the package ($\$x + Y\%$) is that it would enable the Government to secure an acceptable average settlement. This it is not doing. If any bias is justified, it should favour the middle managers in the Civil Service, to whom we are looking to accept greater obligations in coping with disputes and who only benefited from the Budget by less than 1%, compared to the 2-3% of the lower paid.

no.
NICHOLAS OWEN
22 March 1983

SECRET

4.975
Prime Sec.



PA

10 DOWNING STREET

Prime Minister

3 1/2 b.

5 1/2 b.

Meeting with the Chancellor

Agenda

1. Civil Service + Teachers' pay

see Misc 66 minutes (tag A)

letter from Sir K Joseph (tag B)

letter from Mr Younger (tag C)

Note by Nicholas Owen (tag D)

2. Appointment of William Hague as

a Special Adviser (tag E)

3. Extension of Terry Burns' appointment

4. Replacement for Mr Le Cheminant.

5. Exchange and Money Markets - sitrep.

MCS 22/3



10 DOWNING STREET

Prime Minister

Pay

You will see from these papers
that we are sliding upwards
to 5% on civil service and
teachers' pay. The MISC 66
minutes (flag A) show that the
Chancellor is acquiescing in this.

He plans to minute you, tomorrow.
But if you want to stop the rot you
can take this, and teachers' pay, up
with him tomorrow.

MCS 22/3



Prime Minister ²

MUS 22/3

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

21 March 1983

The Rt. Hon. Baroness Young
Lord Privy Seal

Dear Lord Privy Seal,

CIVIL SERVICE PAY

As you know, a meeting of MISC 66 has been arranged for tomorrow morning, 22 March, to take stock of the position we have now reached in the negotiations on non-industrial Civil Service pay before 1983.

At its meeting on 15 February MISC 66 agreed that it was reasonable to aim at a settlement in the range 4-4½ per cent and endorse the package of proposals as an opening offer which would be worth around 3½ per cent in total. The Prime Minister agreed with our conclusions but asked that our negotiators should be instructed not to go beyond 4 per cent in discussion with the Unions.

In the event the main part of our opening offer was made to the Unions on 8 March with the other elements following a few days later. The totality of the offer (costed at 3½ per cent) was made "without prejudice" - a formula which means that the offer is confidential, cannot be quoted against us in any arbitration proceedings and indeed is withdrawable by us if we so decide. Our negotiators have been in close touch with the Unions since the offer was made, both in formal sessions and in more restricted groups. They have not found it necessary to improve on our initial offer but have concentrated instead on persuading the Unions to greater realism and on technicalities designed to reduce the ultimate negotiating process to manageable proportions.

The Unions have cooperated well in this last process and it is clear that they would much prefer an agreed settlement to the alternatives. This does not mean, however, that we are within striking distance of an agreement. There remain significant differences of approach, both on quantum and on the shape of any settlement. The question of "shape" is particularly important to the Unions. They have different ambitions but are united in the belief that they can only sell a settlement to their members (and from our point of view, more importantly, recommend it to them) if it is biased in some way in favour of the lower paid.

I will elaborate further on figures at our meeting but it may be helpful if I set out briefly the elements which it appears might be comprised within an agreed settlement if one could be achieved. The points are:-

- a. A statement recognising that the present settlement was an ad hoc one designed to take us through the period before a new post-Megaw pay agreement could be negotiated. Both sides would say that the agreement was without prejudice to their respective positions. No commitment would be implied.



b. The Unions would agree to withdraw their hours claim while reserving the right to re-present it next year.

c. All of the non-central elements - London Weighting, pay restructuring etc - would be set aside for detailed negotiation (against a timetable) over the coming weeks, but with a clear joint agreement on the sum of money available for these purposes (probably about £10 million or one-quarter of 1 per cent of the pay bill.)

All 3 of these points are valuable to both sides. The first gives the Unions a reason for not pursuing their catching up claim this year and us, if we wish to take it, an excuse for a shape of settlement which departs a little from that which we would prefer to see; the second removes an area of cost uncertainty for us (eg if any arbitrator decided to throw in a little on hours as a make-weight in a final award) while enabling the Unions to avoid putting to the test a claim which is not strong but may get stronger as time passes; and the third enables the Unions to go for a quick settlement on the key issues without being delayed by arguments on detail while enabling us to see from the outset the true cost of any settlement we make.

The questions of quantum and shape of the main part of any settlement are obviously the most difficult, not least because they import substantial questions of public presentation and of possible repercussions. The issues are well known and we can explore them at the meeting.

We will also need to give further thought to the choices before us should it prove impossible to reach agreement. Again, the issues are well known and I need not rehearse them now beyond saying that we may need to take an early decision on the question of arbitration or imposition.

Finally, it is worth noting that there are internal procedural devices open to the CCSU which would enable us, in the right circumstances, to obtain from them a positive recommendation to their members to accept a settlement without the full agreement of all of the Unions concerned.

I am copying this letter to colleagues on MISC 66, to the Prime Minister, to John Sparrow and to Sir Robert Armstrong.

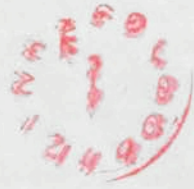
Yours sincerely,

Margaret Channon

for GEOFFREY HOWE

(Approved by the Chancellor and signed in his absence)

Civil Service : Pay & Pensions Pt 13



21 MAR 1962