



CABINET OFFICE

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From the Chancellor of the
Duchy of Lancaster
Lord Gowrie

CCO
DMS
26/11
MANAGEMENT AND PERSONNEL OFFICE
Great George Street
London SW1P 3AL
Telephone 01-233 8610

The Rt Hon Sir Keith Joseph Bt MP
Secretary of State for Education and
Science
Elizabeth House
York Road
London SE1 7PH

23 November 1984

Dear Keith,

FURTHER EXTENSION OF UNIFIED GRADING IN THE CIVIL SERVICE

We agreed that our officials should look more closely with the Treasury at the issues affecting the consequential implementation of unified grading and pay arrangements at Principal level in the Research Councils.

I have now received the attached note, which I understand has been agreed with your officials, showing a revised, and rather lower, estimated cost of passing on the pay consequentials to the PSOs in the Research Councils and outlining possible ways of proceeding.

In the light of the support received from other colleagues for introducing the reform in the Civil Service next year, the real options are rather limited. You have already explained the serious implications of attempting to break the current pay linkage between Research Council and Civil Service staff. These considerations would no doubt apply as strongly even if their respective pay levels were to diverge for only a short period. If we defer the reform in the Civil Service, however, we should not only be losing the valuable momentum we have built up in introducing changes to help improve efficiency and effectiveness. We should also be denying ourselves the managerial benefits which many departments expect to flow from rationalising into a single grade a complex structure containing over 11,000 staff currently in some 100 different grades.

MANAGEMENT IN CONFIDENCE

My own view is that only option (d) avoids unduly harsh penalties. The costs in the first year are very small indeed, and there is a considerable time lapse before the full costs are incurred. In view of this and the recent improvements in the Science Budget, I hope you will now find it possible to withdraw your objection.

I attach considerable importance to a very early combined announcement about unified grading and performance related pay in the wider context of our programme for personnel management reforms. I shall be minuting the Prime Minister separately about performance bonus scheme proposals in the hope that I shall be able to make such an announcement well before the House of Lords debate on 5 December. It would therefore be most helpful to have an early response.

I am copying this letter to the Prime Minister, to the Chancellor of the Exchequer, Sir Robert Armstrong and Sir Robin Ibbs.

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MANAGEMENT IN CONFIDENCE

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DEPARTMENT OF EDUCATION AND SCIENCE
 ELIZABETH HOUSE, YORK ROAD, LONDON SE1 7PH
 TELEPHONE 01-928 9222
 FROM THE SECRETARY OF STATE

Handwritten: Dubs
 8/12

30 November 1984

Handwritten: Jean Grey

FURTHER EXTENSION OF UNIFIED GRADING IN THE CIVIL SERVICE

Thank you for your letter of 23 November and enclosed Note. I am not persuaded that the Research Councils should suffer any further erosion of their resources. I continue to have real doubts about the overall benefits of this change in relation to its costs. In this I am not alone among colleagues, some of whom also see hurtful consequences if the cost had to be met out of their present cash allocations.

I am copying this letter to the Prime Minister, the Chancellor of the Exchequer, Sir Robert Armstrong, Sir Robin Ibbes and Dr Nicholson.

Handwritten: Jean
 Kern

Lord Gowrie
 The Chancellor of the
 Duchy of Lancaster
 Management & Personnel Office 122
 Great George Street
 LONDON SW1P 3AZ

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Civil Service
Long Term

- 3 DEC 1984



UNIFIED GRADING AT LEVEL 7: COST AND OTHER IMPLICATIONS FOR THE RESEARCH COUNCILS

Note by officials of MPO, Treasury and DES

1. Lord Gowrie proposed, in his letter of 3 August, to his colleagues that unified grading and pay should be further extended in the Civil Service next year to include grades at Principal level with the object of improving efficiency and effectiveness by providing greater flexibility at a key level in the structure, making it easier to deploy staff and develop talent. The Prime Minister and her colleagues generally, but not the Secretary of State for Education and Science, were prepared to agree. Sir Keith Joseph, in his letter of 14 September to the Chancellor, raised objection to the proposal primarily on the grounds that, if the Research Councils were to follow the Civil Service, the consequential costs, in addition to several other significant extra burdens they were already having to bear, would create unacceptable extra pressure on the Science Budget and conflict with the Government's policy of protecting the Science Budget.

2. Cabinet Office (MPO) and Treasury officials have examined the issues involved with those of the Department of Education and Science and officers of the Research Councils. This note reports on the cost of adopting unified grading at Principal level in the Research Councils, and identifies possible options.

Staff Numbers and Costs

3. The pay of certain staff in Research Councils has - as a matter of Government policy - long been linked to that of equivalent grades in the Civil Service. When the Councils were established the Government gave an undertaking that their staff's terms and conditions would be "substantially" aligned with those of the Civil Service. There are approximately 1,200 scientific staff currently graded and paid at Principal Scientific Officer (PSO) level; about 40 professional (PPTO) staff, and about 50 administrative Principals. By contrast, in the Civil Service, there are some 2,160 PSOs, and about 9,000 administrative Principals, PPTOs and other grades at the same level.

4. The cost for the Councils thus arises mainly from the assimilation of PSOs. The pay scale to be adopted for a new unified grade in the Civil Service and the terms of assimilation are subject to negotiation with the unions concerned. The cost estimates given in paragraph 5 are based on the following assumptions:-

i) the scale and assimilation terms would be constructed on broadly similar lines to those used for the earlier extension of unified grading down to Senior Principal level;

ii) as with the earlier extension of unified grading, the salary increases for certain grades including PSOs would be phased over time;

iii) to construct a comparable baseline, in the absence of unified grading the present pay differential between Principal and PSO would remain unchanged.

On these assumptions, the estimated transitional and long term costs (at 1984 pay rates) of introducing unified grading at Principal level in the Research Councils are:-

	Date of Introduction 1 April 1985	Date of Introduction 1 October 1985
Costs in 1985-86*	£6,000	£3,000
Costs in 1986-87	£½m	£¼m
Costs in 1987-88	£1½m	£1m
Long-term Annual Costs	£1½m	£1½m

*Costs for this period are very low because only staff below the minimum of the new scale would benefit in the first year.

Other assimilation arrangements which would phase in the cost more slowly (eg over 5 years) are being considered by the Treasury.

Options

6. The main options for consideration include the following:-

a) abandon the Civil Service reform. This would be unwelcome to other Ministers and the main Civil Service departments because it would mean foregoing the positive advantages foreseen in a unified pay and grading structure at Principal level. On the other hand, it would remove what would otherwise be an additional pressure on the Science Budget; on their present cash planning figures, the Research Councils do not attach any priority to the introduction of unified grading at Principal level;

b) defer the reform for the whole Civil Service for a full year. This would lose the current momentum as an impetus for change, which emerged as an important factor in recent Ministerial exchanges, and would have comparable disadvantages, at least for one year, for main Civil Service departments as outlined under a). Because of the phasing proposals this would defer the costs for two years and by gaining time, preserve for the present the full effects of the additions for science the Secretary of State has secured in this year's PES;

c) to proceed with introduction in the Civil Service in 1985, but delay extension of the reform to Research Council staff. However, the terms on which the Councils' pay relationship with Civil Service staff has been maintained would make it difficult now to divorce the Research Councils from Civil Service pay changes, either in amount or timing, and the pay parity in this area which they now enjoy is convenient in the cases of exchanges and trawls. The present view of the Research Councils is that if the reform goes ahead in the Civil Service it would be quite impracticable for them to resist its simultaneous introduction. To break the link with

Civil Service pay in this one respect would certainly cause problems with Research Councils' staff and their unions; Ministers would therefore wish to consider this course carefully before deciding to adopt it;

d) to proceed with the introduction of the reform in the Civil Service in 1985, and to extend it to the Research Councils at the same time. But this would be unacceptable to the Secretary of State for Education and Science as overtly contributing to the erosion of the science base through growing non-scientific expenditure and as damaging his intentions for the use of the additional money recently gained in PES for Research Council restructuring and new scientific opportunities. If the cost had to be met from the existing budgets of the Research Councils, at least one Council considers that it would have to meet the cost by redundancies. This option would only be acceptable to the Secretary of State if the necessary PES additions were made now to the Science Budget to meet the cost for the Councils, from outside the DES PES block. This would contravene the Chancellor's condition for the implementation of unified grading that its costs should be contained within existing provisions.

If the common operative date was deferred to 1 October, this would halve the Councils' first year cost from £6000 to £3000, and the second year cost from £½ million to £¼ million.

26 NOV 1984



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CCNO

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

29 November 1984

Paul Thomas Esq
Private Secretary to the
Chancellor of the Duchy of Lancaster
Management and Personnel Office
Gt George Street
LONDON SW1

nbpm
sent
29/11

Dear Paul,

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PERFORMANCE RELATED PAY AND UNIFIED GRADING

The Chancellor has seen a copy of the Chancellor of the Duchy's minute of 23 November to the Prime Minister, enclosing the draft of an announcement on performance related pay and unified grading.

The Chancellor is broadly content with the substance of the text, subject to some detailed points set out below. He agrees that it is sensible to announce these two major managerial initiatives at the same time. However, he has stressed that it is very important that we get the tone of the announcement right. In the wake of the recent House of Lords ruling on the GCHQ case, he believes we must ensure that the Government is not seen by the unions to be behaving in a high handed manner in introducing these changes. We understand that your officials have already made a number of amendments to the draft to reflect the Treasury's concern on this point. But the Chancellor would be grateful to be assured that Lord Gowrie is personally content that the announcement strikes the right note from this angle.

Apart from this, the Chancellor would like to see the following changes made to the text.

First, he believes the wording of the second paragraph on page 2 goes beyond the decision reached by the Cabinet last July. While the Chancellor understands Lord Gowrie's concern about presentation, he thinks it would be damaging to arouse expectations which may not be fulfilled. He would therefore like to see this paragraph read as follows:

"The Government will enter into immediate consultations with the Civil Service unions. It is also prepared to

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enter into discussions with the unions about the possibility of conducting further experiments at other grading levels. The method, timing and finance for such further experiments would all be for decision. But any such schemes identified and approved would be introduced as early as practicable."

Second, the Chancellor would like a specific cost to be given for the extension of unified grading. He therefore suggests the last sentence of the announcement might be replaced by:

"The consequential cost involved in aligning the pay of the grades concerned in central government departments is expected to be minimal in 1985/86, and to build up to around £4m per annum when the scheme is fully implemented. It will be met from within planned departmental programmes."

In order to emphasise the difference in the funding of performance bonuses from the funding arrangements for unified grading, the Chancellor also suggests that the last sentence of the paragraph at the top of page 2 of the draft answer might be rephrased as follows:

"This will not come from the existing provision for Civil Service pay and related expenditure. It will be additional to existing departmental allocations, but will be met from within planned public expenditure totals."

Finally, the Chancellor considers that it would be unwise to make a firm statement about the date of implementation of unified grading. Many details remain to be resolved and some, such as the proposed pay scale for the new unified grade, will need to be discussed with the unions. The Chancellor would therefore prefer to say that the Government hopes it may be possible to implement unified grading with effect from 1 April next year. This would leave us free to postpone the date for six months or so, if we saw good reason for doing so. (The Chancellor has pointed out that the inclusion of a reference to unified grading in the statement is in any case dependent on the Secretary of State for Education and Science withdrawing his reservation.)

The Chancellor notes that Lord Gowrie makes no mention of a parallel announcement in the House of Commons. He believes this is essential, given that we shall be telling Parliament for the first time that additional money is to be made available to Departments for performance bonuses. He would therefore be grateful if you could arrange for an identical Question and Answer to be tabled, for answer by the Minister of State, in the House of Commons.

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We should be grateful if your officials could keep in close touch with ours over arrangements for consulting with other Departments and the Civil Service unions at the next stage.

I am copying this letter to Andrew Turnbull (No 10), Richard Hatfield (Cabinet Office) and to Ian Beesley (Efficiency Unit).

Yours sincerely,

Margaret O'Mara

MISS M O'MARA
Private Secretary

Civil Service

PT 16

Lay Term

RECEIVED
NOV 6 1984