

SECRET



Prime Minister ①  
Agree, subject to colleagues,  
that the offer to non industrial civil  
servants be increased from 3.1%  
to 3.7%?

AT  
2/5

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

Yes not

PRIME MINISTER

1984 PAY NEGOTIATIONS FOR NON-INDUSTRIAL CIVIL SERVICE

In my minute to you of 11 April I reported that MISC 66 had concluded we should not force the pace of this year's pay negotiations for non-industrial civil servants, but should aim for an outcome not higher than 4½ per cent. You noted and approved this approach.

2. My officials have now had two meetings with the Civil Service unions. On 17 April the unions presented a claim for a 7 per cent increase across the board (in line with the upper quartile of private pay settlements recorded in the OME Report), plus an underpinning minimum of £7 per week and other scale improvements for new entrants. The overall cost would have put nearly 8 per cent on the pay bill. On 24 April my officials responded with a proposal of an overall increase of 3 per cent on pay rates; an increase of 4 per cent in London Weighting (reflecting the slightly tighter recruitment and retention position) and completion of the alignment of pay scales at Executive Officer and Clerical Officer levels begun last year. The total cost would be about 3.1 per cent on the pay bill. As expected, the unions immediately rejected this offer.

3. Although a number of public service settlements have been reached at 4½ per cent, it will not be easy to secure an agreed settlement with the Civil Service unions at this figure, which is below the 5 per cent shown as the lower quartile of private sector pay settlements in the OME Report. But an outcome, even if imposed, at around 4½ per cent should be possible without significant



industrial action, provided we structure the end result and handle the timing of the negotiations carefully.

4. On structure, we are thinking, as in previous years, of giving different increases to those still on scales and those on maxima or flat rates. I attach a factual note prepared by officials on this, commissioned by MISC 66. Thus we might end with an increase of a little over 3 per cent for those on scales who are due for an increment as well, and something nearer 5 per cent for those on flat rates or scale maxima (about 63 per cent of the total). In addition, as part of an agreed settlement, we might include some minimal underpinning for the low paid, as MISC 66 agreed. We should need to work out the details but it looks as though such a package could be mounted at around the 4½ per cent overall figure we have agreed.

5. The Civil Service unions have their Conferences in the week beginning 14 May. We cannot reach any conclusion before then but we shall need to take stock thereafter. We shall certainly want to avoid the Conferences passing any resolutions for industrial action in support of the pay claim, so I think it would be helpful if we demonstrated our commitment to genuine negotiations by making an improved offer before the Conferences take place. We would, however, need to keep our options on the structure of our final position open as far as possible. I therefore propose we should offer 4 per cent to those on flat rates and maxima, while keeping the offer to other staff at 3 per cent and making no offer in respect of the low paid. This revised proposal would cost about 3.7 per cent.

6. As yet, we have not formally ruled out arbitration, although we do not intend to agree to it. I do not think we should take up a formal position before the Conferences, since this would certainly increase the pressure for calls for industrial action. In the unlikely event of our accepting arbitration at a later stage, an offer of 3.7 per cent would not be damaging and could be positively helpful.



7. I do not believe such a revised offer would create difficulties for other public service pay negotiations. The English and Welsh teachers have now been offered 4½ per cent. Only those NHS staff not covered by Review Bodies are left with an offer of 3 per cent but this is widely recognised to be a formal opening position and in their case, the handling of the Review Body Reports on other NHS staff will be the more important factor.

8. If you and other members of MISC 66 agree, I will therefore instruct my officials to make a revised open offer early next week on the lines set out in paragraph 5 above. I should be grateful for responses by midday on Friday. MISC 66 might then meet after the Civil Service union Conferences to consider the next steps.

9. I am copying this minute to the other members of MISC 66 and to Sir Robert Armstrong.

A handwritten signature in dark ink, appearing to be 'N.L.'.

N.L.

2 May 1984

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AND PERSONAL

INCREMENTAL SCALES AND THE STRUCTURE OF A 1984 PAY OFFER

Note by the Chairman of the Official Group on Civil Service Pay Negotiations

Introduction

At its last meeting MISC 66 asked for a note on ways in which increments might be taken into account in structuring a pay offer, together with information on the extent to which increments were taken into account in the OME Report on private sector pay settlements.

Increments in the Civil Service

2. About 98 per cent of non-industrial civil servants belong to grades who are paid on fixed incremental scales. An incremental scale is a designed series of pay points between a minimum and a maximum through which individuals progress according to pre-determined rules. Increments are paid according to the date on which an individual entered the grade. The use of incremental scales reflects the fact that individuals take time to become fully proficient in all the work of their grade, enables new entrants to be paid less than the scale maximum, and makes it possible to recognise increasing experience and provide some incentive for staff to stay. The basic assumption is that all competent staff will benefit from the full range of the scale. Although the unions argue that the use of scales means that staff are denied the full rate for the job for some years, the correct view is that the rate of pay for the grade is the scale taken as a whole together with the rules for progression through it.

3. The size of increments on existing scales varies both within and between scales. The average value of an increment to those who receive one is currently 6 per cent of salary, with the great majority of increments lying within a range from 3 to 9 per cent. 63 per cent of staff, however, are on scale maxima or flat rates and their salaries represent 70 per cent of the total paybill. The total gross cost of additional incremental payments each year is less than 2 per cent.

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4. The net cost of an incremental system depends on changes in the pattern of distribution of staff across the various points of the scale. This will theoretically be nil in conditions of stability where the flow of staff into, through and out of each grade is uniform. Then the cost of increments paid to those moving up the scale is counter-balanced by the lower rates paid to new entrants to the grade. If an organisation is expanding, a fixed incremental system will marginally reduce the paybill as the proportion of staff at the lower points of incremental scales will increase. But when an organisation is contracting, as the Civil Service is, the converse will be true and there will be a marginal increase in paybill cost.

5. The current forecast (although this is subject to some uncertainty) of the net cost of additional incremental payments during 1984/85 is £8 million or 0.2 per cent of the paybill and provision to cover this has been made in departmental estimates.

## Outside Practice

6. Many outside employers also use either pay ranges or incremental scales. A number of them use a larger number of grades than there are in the Civil Service: this provides more frequent promotions as a result. Under the old Pay Research arrangements from which the present pay pattern derives, Civil Service pay scales were set to reflect what equivalent staff in outside organisations would get as a result of normal pay and career progression. Pay research provided detailed information about pay ranges and the normal movement of staff through them in outside organisations.

7. This year's survey of non-manual pay settlements in the private sector carried out by the Office of Manpower Economics (OME) was concerned only with overall changes in pay rates resulting from pay awards and settlements. It does not contain information for comparing pay levels and the OME did not investigate the extent to which the pay of individuals in particular organisations changes as a consequence of existing arrangements for pay progression in the course of a normal career. There is no reason to suppose that there has been any significant change in the outside position. So the use of scales and the pattern of incremental progression will roughly match the kind of pay and career pattern to be found outside the Civil Service in comparable jobs.

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8. The OME Survey did examine the effect of isolated features reported by respondents such as scale restructuring, regrading and extension of salary ranges on settlements and found that fewer than 6 per cent of employees were affected by such changes. Respondents were not always able to evaluate these features but their impact on settlements overall was almost certainly a de minimis one.

9. The effects of changes in deductions for pensions which were investigated by the OME Survey were also found to be insignificant in terms of pay movements. Again, the OME did not investigate levels of pension contributions but a 1983 survey of occupational pension schemes by the National Association of Pension Funds indicated that there had been no change in employee contribution rates since 1980 when Civil Service pay rates were fixed to reflect these.

#### The Shape of a Pay Offer

10. Against this background it would be extremely difficult to regard the increments due to individuals within existing rules as in effect constituting their whole pay increase for the year. To do so would cut across the basis on which these scales were constructed and have always been treated. This does not mean, however, that the value to individuals of increments due to them could not be taken into account in shaping a pay offer.

11. The first report to MISC 66 suggested that differential treatment for staff on scale maxima might be considered if it looked as though this would be helpful in securing an overall settlement. It might be worth considering this even within the framework of an imposed pay increase if it seemed to be likely to make this more acceptable.

12. The pay of staff on their maxima or on flat rates improves only by the value of their annual pay increase. One way of giving relatively more to these staff and relatively less to staff who will also be receiving an increment in the course of the year would be to lengthen the scale upwards, providing a further scale point to which staff at present on their maxima could move. But this would be expensive. An additional increment averaging 6 per cent of salary (matching the average current value of an increment) would add 3.8 per cent to the paybill. This would leave little room for any increase at all for other staff. To add a 6 per cent increment to each existing scale, irrespective of the size of current

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increments on the scale, would create significant distortions in scales in view of the existing variations in the size of increments on different scales. If in order to avoid these distortions the size of the increment added to each scale was related to existing increments on it, the value of the increment, and thus the value of the pay settlement overall, would vary significantly between staff in a way which would be unlikely to secure acceptance. This approach, therefore, has significant drawbacks.

13. In 1982 and 1983 scale maxima were increased by a higher percentage than lower scale points. The effect of this has been to increase proportionately the size of the final increment on current pay scales. If the higher increase for staff on maxima was repeated this year this effect would become more pronounced. Nonetheless, if it were decided to give a proportionately larger pay increase to staff on maxima and flat rates it would on balance be preferable to do this in the same way as in 1982 and 1983 and simply award different percentage increases at these levels and at lower scale points.

14. In 1982 the scale minima were also increased by slightly less than higher scale points but this produces insignificant savings in cost.

#### Conclusion

15. It would be counter-productive to argue that the increments due to staff in the course of their normal career progression should be taken as their whole pay increase this year. But the value of increments to individuals entitled to them could be taken into account in framing a pay settlement so as to provide somewhat larger increases for those who are on flat rates or have reached their scale maxima.

HM Treasury

1 May 1984

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*File 46  
a Nick Owen.*

10 DOWNING STREET

*From the Private Secretary*

4 May 1984

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PAY NEGOTIATIONS FOR THE NON-INDUSTRIAL CIVIL SERVICE

The Prime Minister has seen the Chancellor's minute of 2 May. She agrees that it would be appropriate to increase the offer to the non-industrial civil servants ahead of their union conferences, by the amount suggested. On the structure of the offer, she will want the Chancellor to take account of the point made by the Secretary of State for Defence in his minute of 3 May.

I am copying this letter to the Private Secretaries to other members of MISC 66 and to Richard Hatfield (Cabinet Office).

ANDREW TURNBULL

CST

David Peretz, Esq.,  
H.M. Treasury.





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David Peretz Esq  
Private Secretary to the  
Chancellor of the Exchequer  
HM Treasury  
Great George Street  
LONDON SW1

6<sup>th</sup> May 1984

Dear David,

1984 PAY NEGOTIATIONS FOR THE NON-INDUSTRIAL CIVIL SERVICE

My Secretary of State is content with the proposal in the Chancellor of the Exchequer's minute to the Prime Minister of 2 May that an improved offer should be made next week in advance of the union conferences, and with its proposed structure. He also agrees that it would be a mistake to reject renewed requests for arbitration now. The best chance of avoiding the conferences becoming committed to threats of industrial action must lie in demonstrating that negotiations are still continuing and that the Government is still looking for a negotiated settlement.

My Secretary of State also agrees that MISC 66 should meet after the conference to consider the next steps, including the structure of a final offer.

I am copying this letter to Andrew Turnbull at No 10, the Private Secretaries of the other members of MISC 66 and Sir Robert Armstrong.

Yours sincerely,

*Peter Smith*

PETER SMITH  
Private Secretary

4 MAY 1984





## CABINET OFFICE

From the Minister of State

Lord Gowrie

MANAGEMENT AND PERSONNEL OFFICE

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

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

Dear Chancellor,

1984 PAY NEGOTIATIONS FOR NON-INDUSTRIAL CIVIL SERVICE

I have seen a copy of your minute of 2 May to the Prime Minister about the handling of these negotiations. I agree that our immediate objective is to keep the negotiations in play over the union conference season in order, so far as we can, to avoid the hands of union negotiators becoming too constrained by resolutions, and I agree that a revised offer structured on the lines you suggest seems to offer us the best prospect of securing this, consistently with our general position on this and other public sector pay issues.

As you say, I am sure that we shall need to consider the issues further after the Civil Service union conferences.

I am copying this letter to the Prime Minister, to the other members of MISC 66 and to Sir Robert Armstrong.

Yours sincerely,

*Handwritten signature of Lord Gowrie*

dictated by Lord Gowrie and signed in his absence.  
LORD GOWRIE

- 4 MAY 1984

