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SECRET

PRIME MINISTER

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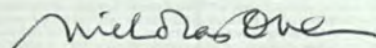
1984 PAY NEGOTIATIONS FOR NON-INDUSTRIAL CIVIL SERVANTS

Nigel Lawson's proposal for the structure of the Government's offer to the civil servants is an artful one; it favours those who are most frustrated by the contraction of the Civil Service - those whose promotion is now more remote than they had once hoped - who are at the top of the scale for their respective grades. It also does something for the lower paid eg a cleaner on £60 a week would get 5%.

Michael Heseltine had difficulty with the differential between those on flat rates or maxima and those receiving increments. He felt that the latter were more dynamic and should not be disfavoured in this way. Like Nigel Lawson, we do not think that one can characterise employees' dynamism, or otherwise, by reference to their position on the scale. There are a number of civil servants who are content to bat out their time at the top of their scales, but equally, there are many able people in the same position, who are awaiting deserved promotion to the rather fewer senior posts available. Merit pay is surely a better way to reward effort

There will, however, be pressure from the union side to close the quite substantial gap between 5% and 3½%. The unions cling to the idea that anyone not at the maximum is being paid less than the "rate for the job" and that to point to increments in pay negotiations is a "cheap point". More importantly, no group in the public service has settled for less than 4%, and it is unlikely that they will. It is therefore very likely that the Treasury will have in the end to concede 4% to those still on increments. Our feeling is that they should be allowed to do so, for negotiating reasons, and should not be pressed to do so for management reasons, along the lines suggested by Michael Heseltine. The additional cost should be contained by a more ambitious reduction in manpower.

We recommend that you endorse the line proposed by Nigel Lawson. You have noted the point raised by Michael Heseltine about those on increments, but you feel that rewards for the more dynamic could be better focused through a system of merit pay. The fact that increments are on average worth around 6% of salary - higher than the likely settlement - and are awarded automatically should not be overlooked.


NICHOLAS OWEN

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