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MISC 66(86) 1st Meeting

COPY NO 18

CABINET

MINISTERIAL GROUP ON CIVIL SERVICE PAY NEGOTIATIONS

MINUTES of a Meeting held at  
10 Downing Street on  
WEDNESDAY 19 FEBRUARY 1986 at 3.00 pm

PRESENT

The Rt Hon Margaret Thatcher MP  
Prime Minister

The Rt Hon Nigel Lawson MP  
Chancellor of the Exchequer

The Rt Hon Sir Keith Joseph MP  
Secretary of State for Education  
and Science

The Rt Hon Norman Fowler MP  
Secretary of State for Social Services

The Rt Hon Norman Tebbit MP  
Chancellor of the Duchy of Lancaster

The Rt Hon Kenneth Clarke QC MP  
Paymaster General

The Rt Hon Richard Luce MP  
Minister of State  
Privy Council Office  
(Minister for the Arts)

The Hon Peter Brooke MP  
Minister of State  
Treasury

Mr Norman Lamont MP  
Minister of State for  
Defence Procurement  
Ministry of Defence

The Hon Alan Clark MP  
Minister of State  
Department of Trade and Industry  
(Minister for Trade)

Mr E P Kemp  
Treasury

SECRETARIAT

Mr J B Unwin  
Mr A J Wiggins  
Mr J E Roberts

SUBJECT

CIVIL SERVICE PAY NEGOTIATIONS 1986

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CIVIL SERVICE PAY NEGOTIATIONS 1986

The Group considered the approach to be adopted in the 1986 pay negotiations for the non-industrial Civil Service. They had before them a minute of 17 February from the Chancellor of the Exchequer to the Prime Minister.

THE CHANCELLOR OF THE EXCHEQUER said that it was necessary to consider the Government's strategy for the 1986 pay negotiations. There were some 500,000 non-industrial civil servants, with a pay bill of £4.5 billion, so that significant amounts of public expenditure were at stake. In each of the last three years a settlement had been achieved well below the average of those elsewhere in the economy, and below the rate of inflation. But problems of recruitment and retention were beginning to appear and morale was suffering, so there was a limit to the extent to which Civil Service pay could be further ratcheted down. Industrial action had been avoided in 1985 by only a narrow margin.

The previous November the Government had offered the unions a long-term pay arrangement (LOPA) on the lines recommended by the Megaw Report. Under LOPA, the aggregate increase in the Civil Service pay bill would be constrained to lie between the lower and upper quartiles of settlements in the private sector generally, as measured by surveys undertaken by the Office of Manpower Economics (OME). Arbitration would be available by joint agreement only, and would also be constrained by the upper and lower quartiles. All the unions except the Institution of Professional Civil Servants (IPCS) and the Prison Officers' Association (POA) had, however, rejected LOPA.

There were now three ways in which the Government might proceed. The first option was to return to free collective bargaining, as had operated in 1985. Second, it could ask the OME to complete its analysis of data on movements in the private sector to establish where the quartiles lay, and agree that this should inform but not constrain negotiations. This work would take about a week.

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This approach had been used in 1984, when a settlement lower than the lower quartile had been achieved. Third, the Government could decide that for its part it would adopt the principles underlying LOPA for the 1986 negotiation, but without any commitment for the future. Under this option also it would be necessary to ask OME to complete its analysis. There could be no certainty about the results, but it was likely that the lower quartile would be in the range 5-6 per cent. This would provide the lower limit for the aggregate increase in the pay bill, but within that total some money, perhaps around 1 per cent, might be used for restructuring justified on managerial grounds.

The choice between options was fairly finely balanced, but in his view the principles underlying LOPA, which had been very carefully considered by the Group the previous autumn, remained valid and he was therefore inclined towards the third option. But he recommended that a choice between options two and three should be deferred until the results of the OME work were available. It should be remembered, however, that the results of the OME analysis would almost inevitably become publicly known, whether or not they were published.

In discussion the following points were made:

- a. Problems of recruitment and retention were beginning to emerge, particularly among clerical staff, accountants and tax inspectors.
- b. The clerical restructuring should help with recruitment and retention problems in these grades. Clerical staff would be expected to take on a wider range of duties, including the use of new technology, which over time should enable some of the cost to be recouped.
- c. While the Civil Service had received relatively modest settlements in each of the last three years, the comparison with the private sector over the period since 1979 was more favourable.

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d. If the Government was seen to have committed itself to LOPA, there would be no further incentive for the unions to come to an agreement unless the Government made further concessions.

e. In previous years the Government had been able to make an opening offer significantly below the final settlement. But under LOPA the opening offer would have to be at the lower quartile, so that the scope for further movement would be reduced.

f. It might be desirable to offer the IPCS and POA separate LOPA arrangements in respect of the staff whom they represented, and they should certainly not receive any less advantageous arrangements than those accorded to the unions who had rejected LOPA. It would be particularly difficult if IPCS and POA staff received settlements lower than the lower quartile because part of the resources had been pre-empted by the clerical restructuring.

g. The pay scales of some IPCS groups were uncompetitive. There had already been a restructuring of professional and technological grades, and it would be necessary next to consider the scientific grades.

h. There was a sufficient differential between the top of the negotiated pay structure and the bottom of that covered by Top Salaries Review Board to accommodate any reasonable increase for the former group.

i. Some Departments might have difficulty in financing a settlement at about 6 per cent within their provision for departmental running costs, although in previous years it had usually proved possible to finance increases one or two percentage points above the pay assumption, and there were already severe pressures on the Reserve.

j. Staff in the National Health Service (NHS) not covered by review bodies had received pay increases in recent years lower than those awarded to civil servants. An opening offer to the Civil Service of about 6 per cent, as would be required by LOPA, would therefore make this year's NHS negotiations particularly difficult.

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k. There were particular problems of recruiting and retaining staff in London, particularly in lower paid grades, given the very high costs of accommodation and travel. This should be borne in mind in shaping the 1986 and in future consideration of the London Weighting allowance.

It would be helpful in raising morale if the 1986 increase could be in pay packets soon after 1 April, but whether this could be achieved depended on the course the negotiations took.

THE PRIME MINISTER, summing up the discussion, said that the LOPA proposals, based on the Megaw Report, would have provided a fair framework for negotiating Civil Service pay. The Group were therefore inclined towards giving the unions which had been prepared to accept LOPA the benefit of these arrangements. As for the other unions, the Government should negotiate for 1986 with the principle of LOPA in mind, but should make no commitment about the arrangements for subsequent years. Before a final decision was taken, however, it would be helpful to have some measure of the range of settlements in the private sector, and the Chancellor of the Exchequer should therefore ask OME to complete its analysis. He should report that work to the Group together with detailed proposals for an opening offer and negotiating tactics for 1986, taking account of the points which had been made in discussion.

The Group -

1. Took note, with approval, of the Prime Minister's summing up of their discussion.
2. Invited the Chancellor of the Exchequer to arrange for OME to complete its analysis of the pay movements in the private sector, and to report the outcome of that work to the Group.
3. Invited the Chancellor of the Exchequer to prepare proposals in the light of that analysis for an opening offer and negotiating tactics for further consideration by the Group.

Cabinet Office

20 February 1986

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NOTE

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