

PREM 19/1428

33/76

PART 14

MT

SECRET

NEW FILE COVER

CONFIDENTIAL FILING

PAY AND PENSIONS

CIVIL SERVICE

PAY DISPUTE / STRIKE

84

PART 1 MAY 1979

PART 14 MARCH 1984

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
NEW FILE COVER,							
19/12/84							
21.1.84							
25.2.85							
7/3/85							
8.3.85							
25.2.85							
<p>PREM 19/14 28</p>							

PT 14 ENDS

Material used by
 Official Historian
 DO NOT DESTROY

PART 14 ends:-

Chlex to S/S MOD 25.2.85

PART 15 begins:-

S/S DES to Chlex 7.3.85

SECRET



→ CC NO
CC PW.
BIP [unclear] response
(attached) 35

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

The Rt Hon Michael Heseltine, MP
Secretary of State for Defence

25 February 1985

John Major

1985 PAY NEGOTIATIONS FOR NON-INDUSTRIAL CIVIL SERVANTS

--- I enclose a note by officials, suggesting the next steps in this year's pay negotiations for non-industrial civil servants. The settlement date is 1 April.

As you will see, we are invited to agree that Treasury officials should make an opening offer to the unions on the lines described in paragraph 9 of the note: essentially, an offer worth 3.95 per cent on the pay bill (4.01 per cent on earnings), plus minor individual improvements of interest to the separate unions, estimated to cost about 0.1 per cent.

I am content that an opening offer should be made on these lines. I think anything less than about 4 per cent would not look serious and would ultimately prove counter-productive. But we certainly do not want to go any higher at this stage. I am also content with the shape of the offer. The inclusion of a flat rate element (£4 per week) follows precedent and while it has disadvantages in pure economic terms, I think we should include it in our immediate offer in view of the claims we have received and the need to negotiate as low a settlement overall as possible this year.

If you and other colleagues agree, I should like to authorise my officials to make this offer, probably in the first fortnight of March. (Our officials can settle the exact date.) We can then meet to discuss the next steps after officials have assessed the unions' reaction. But I hope we can agree an opening offer on the lines officials propose without an immediate meeting.

I am copying this letter to the Prime Minister, to the other members of MISC 66, to the Secretaries of State for Education and Science and the Environment, and to Sir Robert Armstrong.

NIGEL LAWSON

Nigel Lawson

SECRET

SECRET

AND PERSONAL

**1985 PAY NEGOTIATIONS FOR NON-INDUSTRIAL CIVIL SERVANTS
SECOND REPORT TO MINISTERS FROM THE CHAIRMAN OF THE
OFFICIAL GROUP**

MISC 66(84)1 set out the background to the forthcoming pay negotiations for non-industrial civil servants. The settlement date is 1 April. Claims have now been received from the Civil Service unions and there have been preliminary discussions between the Treasury and union officials. This note discusses the way forward.

Union claims

2. Unlike recent years, the Council of Civil Service Unions has not submitted a single claim this year. Instead, individual claims have been received from each union and these are summarised at Annex A. It will be seen that, with some variation, most are for a flat rate increase of £15 per week or a percentage increase of 15 per cent, or the better of the two. In percentage terms the claims vary from about 17½ per cent for the CPSA and the IPCS (two of the bigger unions) down to 12 per cent for the POA. The average increase on the pay bill, if all the quantified claims were conceded in full, is estimated at about 16 per cent. This compares with the 3 per cent pay assumption built into public expenditure plans.

3. The justification for the claims rests largely on comparability; involving "catching up" since 1980, a perception of the current "going rate" elsewhere (according to the Department of Employment, private sector pay settlements so far in this round are clustering around 5-6.9 per cent; some other indicators are shown at Annex B), and an idea about what comparable jobs elsewhere are getting. Arguments we are deploying about cost restraints and the general absence of recruitment and retention problems (though there are some difficult problem areas), while acknowledged by at least some unions to be factors to be taken into account, are seen as very much less important than these comparability based arguments and, as it is put, the need for a settlement which is "felt to be fair" by civil servants; who, the unions claim, perceive that

SECRET

SECRET

AND PERSONAL

-2-

the Government has deliberately adjusted their pay downwards as an act of policy.

4. In our preliminary discussions the unions have said little about possible industrial action. But there have been several reports of Civil Service unions liaising in recent months on contingency plans for industrial action. Local coordinating committees have been set up to organise campaigns. At their pay conferences, only the CPSA backed all-out action - the actuality seems less likely - while the others favoured guerrilla action. The IRSF, however, threaten a one day warning strike failing a satisfactory settlement by 1 April followed, if necessary, by an all-out strike, but probably subject to a ballot of members. Most unions have sufficient funds to finance sporadic, though potentially damaging and costly, action.

Our proposed approach

5. Against this background we have considered our proposed approach, under the headings of shape of an offer and possible settlement, quantum, and tactics. In considering these elements we have to note that although the unions have put in different claims, and although there can be some distinction between the offers that are made as between different unions, generally speaking we shall have to look for a common offer, albeit tailored so far as possible to meet the particular circumstances of particular unions.

6. On shape we feel we have to recognise the concern expressed for the lower paid (of whom there are a relatively large number in the Civil Service) and include, as last year, a flat rate element. This would be lower for juveniles than for adults. For the better paid grades a percentage increase would be offered, without differentiation between those on flat rates or scale maxima (about two thirds of staff) and those still on incremental scales (one third). This does not rule out, if and when the initial offer is reframed, some differentiation (as in previous years), but there are arguments against this. The net cost of the incremental system in the Civil Service is currently estimated

SECRET

SECRET

AND PERSONAL

-3-

to be close to zero, and could even be negative. We are running into problems with scale relativities after several years of giving proportionately more to staff at the top of scales or on flat rates. London Weighting would be increased to reflect recruitment and retention problems being encountered in London. In addition to this general package we would look to offer each union something of specific interest to its own members: there are a number of worthwhile and inexpensive improvements which could be proposed which would help to "individualise" the offer so far as particular unions went.

7. So far as quantum goes, our aim must be a settlement which is as inexpensive overall as possible compatible with management desirabilities, including recruitment, retention and motivation of staff, and the degree of industrial action which Ministers might be prepared to face. It is too early at this stage to take a final view, having regard amongst other things to the general uncertainty in the public services pay scene (see Annex B). Our tentative view, however, is that while it would be very difficult to secure agreement to an increase below last year's 4.55 per cent (which was itself not, in fact, agreed, but acquiesced in), it might be possible to finish up below 5 per cent. On the basis of past experience, we would expect that Departments generally would be able to absorb an increase of this order without recourse to the Reserve. However, there may be cases where running cost provision in Estimates may be tight in the event of such an increase.

8. On tactics, we need to consider both the size of the offer and timing.

9. On size, there is a case for opening as last year with an offer worth 3 per cent on the pay bill. But we do not recommend this. The unions fully understand that while 3 per cent has indeed been built into public expenditure plans, historically speaking settlements at between 1½ and 2 percentage points above the pay assumption or factor have been reached and honoured. Moreover, no other public service group has been made an initial offer below

SECRET

SECRET

AND PERSONAL

-4-

4 per cent in the current round. On the other hand, given the level of discussions going on elsewhere, the possibility that we may wish to go to arbitration this year (see paragraph 12 below), and our often repeated statement that we intend to engage in genuine negotiations, the opening offer should be about 4 per cent. An initial package might comprise the following:

- a. An increase of £3 per week for juveniles (staff on 16 and 17 age points);
- b. an increase of £4 per week for grades with rates of pay less than or equal to the pay of Clerical Officers and equivalent grades (broadly grades with scale maxima up to £6544);
- c. an increase of £4 per week or 4 per cent, whichever is the greater, for grades with rates of pay greater than the pay of CO equivalents but less than the pay of Principal and equivalent grades (broadly grades with scale maxima between £6544 and £14648);
- d. an increase of 4 per cent for all other grades;
- e. an increase of 4 per cent for pay-related allowances, except where this is not justified on recruitment and retention grounds;
- f. increases averaging out at about 4 per cent for London Weighting.

Such an offer is worth 3.95 per cent on the pay bill and some 4.01 per cent on average earnings. Details are set out in Annex C. In addition we would propose minor individual improvements of interest to the separate unions, as set out at Annex D, estimated to cost about 0.1 per cent.

10. It should be noted that this approach cannot be expected to deal with all the specific recruitment and retention problems

SECRET

SECRET

AND PERSONAL

-5-

Departments face. It is proposed that these should be considered separately, outside the general negotiations, on a highly selective basis. This approach avoids facing the problem of weighing the cost of "dead weight" against the unions' dislike of selectivity. The additional cost would have to be met from within existing departmental provisions.

11. So far as timing goes, we think that any initial offer should be made fairly quickly so as to avoid accusations that we were deliberately dragging our feet. Further negotiations would of course then follow, but we should not rule out the possibility of sporadic industrial action even while these negotiations are going forward, given the evident gap between the size of the unions' demands and the size of this initial offer. A further report would be put to MISC 66 following such negotiations, and an improved offer might be recommended.

12. It is worth noting that at some stage Ministers will almost certainly be faced with a request from the unions to go to arbitration. No final decision has to be taken on this now, but in considering present and future tactics the possibility that we may end up at arbitration, on some basis or another, must not be overlooked.

13. A thought in the background is the possibility of some longer-term pay agreement with civil servants. Discussions following the Government's endorsement in principle of Megaw have gone into abeyance post-GCHQ and the way last year's pay negotiations went. In addition, some of the unions are deeply suspicious of Megaw. There may, however, be a case for moving towards some more stable arrangement for the longer term. No decisions are required on this now, but it may be that either during the course of the present negotiations or when they are completed, Ministers will wish to consider whether more positive steps should be taken with the unions to discuss some more stable long-term system.

SECRET

SECRET

AND PERSONAL

-6-

Conclusion

14. Ministers are invited (a) to note the assessment of the position set out above, (b) to agree that the Treasury should make an opening offer on the lines set out at paragraph 9, on an early date, (c) to note that following the making of the offer and further negotiations, a further report will be made.

SECRET

CIVIL SERVICE UNIONS' 1985 PAY CLAIMS: SUMMARY

UNION	MAIN GRADES REPRESENTED	SUMMARY OF CLAIM
Civil and Public Services Association	Clerical, typing and secretarial grades; about 200,000 staff	a. £15 a week increase at all scale points; b. Minimum wage of £100 per week
Society of Civil and Public Servants	Executive and higher administrative grades; about 100,000 staff	a. 15 per cent on all scales and scale points; b. Other minor elements
Association of First Division Civil Servants/Association of Inspectors of Taxes	Higher administrative grades; Economists; Statisticians; Tax Inspectors; about 10,000 staff	a. General increase of 15 per cent; b. Further increases for particular groups
Civil Service Unions	Paperkeepers; Messengers; Office Keepers; Security Officers; Reprographic and Photoprinting grades; other basic grades; about 30,000 staff	a. Minimum increase of 15 per cent b. Underpinning minimum increase of £15 a week; c. Minimum wage for adults of £100 a week
Institution of Professional Civil Servants	Professional, Scientific and Technical grades; about 75,000 staff	a. 7 per cent on all scale points (going rate); b. 7 per cent on all scale points (catching-up); c. £7 a week for all grades; d. Minimum wage for adults of £104 a week
Inland Revenue Staff Federation	Inland Revenue grades; about 40,000 staff	a. Flat rate increase of £15 a week; b. Reduction in hours to 35 a week and additional 5 days leave, without loss of pay
Prison Officers Association and Scottish Prison Officers Association (separate claims)	Prison Officers; about 21,000 staff	Increase of 12 per cent taking account of movement in basic pay, reduction in hours and a reduction in incremental scales

CURRENT LEVEL OF SETTLEMENTS AND EARNINGS

CBI	Over half of settlements in manufacturing and private services since 1 August in range <u>4½-6½ per cent.</u>
Dept. of Employment's coverage of settlements	Private sector settlements since 1 August concentrated in range <u>5-6.9 per cent</u> ; public settlements (only three) ranging from <u>5.1-6.9 per cent</u> ; interquartile range of non-manual settlements since 1 April <u>5½-6½ per cent.</u>
Income Data Service	Most increases in basic pay over autumn and winter in range <u>5-8 per cent.</u>
Average Earnings Index	Underlying increase of 7.5 per cent over last twelve months; private sector 7¼ per cent and public sector 7 per cent.

II. MAIN PUBLIC SERVICE PAY NEGOTIATIONS: STATE OF PLAY AT 21.2.1985

Settled:	Police Federated Ranks 5.1 per cent. Firemen 6.9 per cent. LA builders 6.6 per cent over 15 months (equal to 5.3 per cent at annual rate). LA white collar arbitration award worth 4.83 per cent on average earnings but up to 5.6 per cent for lowest paid; Probation Service worth 4.6 per cent on average earnings [both outstanding from last pay round].
LA manuals:	Negotiations broken down. 4.75 per cent offered (4.5 per cent last year) but employers refused settlement date move. Industrial action threatened in March, possibly in concert with teachers.
Teachers (E&W):	Claim worth 12 per cent. (Last year 5.1 per cent from arbitration). Long-term restructuring of pay and responsibility rejected by unions. Also rejected by Education Secretary on cost grounds. Employers offer 4 per cent plus arbitration rejected by teachers. Industrial action being stepped up last week in February.
Teachers (Scot):	No claim yet. Industrial action in Ministers' constituencies for SoS to set up independent pay review. (Employers now want one too but covering conditions of service as well).
Review Bodies:	(Recommendations last year ranged from 6.5 to 7.8 per cent). Written evidence submitted. TSRB, NPRB looking at pay <u>levels</u> this year.
Civil Service: (non-industrials):	Negotiations in early stages. HMT has rejected OME survey this year. CPSA and IRSF claiming £15 a week, most others around 15 per cent. (Last year: 4.55 per cent increase).

PERCENTAGE INCREASE IN AVERAGE PAY RATES AND TOTAL PAY COSTS

S E C R E T AND P E R S O N A L

DATE	I JUVENILES		II GRDS UP TO & INC CO & EQUIVS		III GRDS ABOVE CO & BELOW GRD 7		IV GRDS 5 TO 7 & EQUIVS		OVERALL INCREASE
	BEST OF	AVERAGE	BEST OF	AVERAGE	BEST OF	AVERAGE	BEST OF	AVERAGE	
FEB 14 1985	(LESS THAN £3350)		(£3300-£6550)		(£4500-£15000)		(£11800-£25000)		
	////	////	0.00%	3.70%	4.00%	4.00%	4.00%	4.00%	////
STAFF ON SCALE MAX OR FLAT RATE	////	////	£4.00PW	£4.00PW	£4.00PW	£7.05PW	£0.00PW	£14.70PW	////
OTHER STAFF	0.00%	5.13%	0.00%	4.48%	4.00%	4.00%	4.00%	4.00%	////
	£3.00PW	£3.00PW	£4.00PW	£4.00PW	£4.00PW	£6.27PW	£0.00PW	£12.49PW	////
	PERCENT	£ P.W.	PERCENT	£ P.W.	PERCENT	£ P.W.	PERCENT	£ P.W.	PERCENT
AVE INC IN RATES	5.13	3.00	4.02	4.00	4.00	6.86	4.00	13.89	4.01
INC IN PAYBILL COSTS(PERCENT)	5.01	////	3.97	////	3.97	////	3.81	////	3.95
CCSU COVERAGE	CPSA		CPSA IRSF CSU		SCPS IRSF IFCS POA		SCPS FDA/AIT IFCS		
NUMBERS OF STAFF	2000		249000		212000		22000		

SECRET

AND PERSONAL

ANNEX D

**MINOR INDIVIDUAL IMPROVEMENTS OF INTEREST TO THE
SEPARATE UNIONS**

Accountancy Allowances

Increase and extend allowances now paid only to EOs, without going so far as the FDA/AIT proposal for an allowance for all qualified accountants below the senior Open Structure. Would be attractive to the SCPS.

Scale rationalisation at
EO level

Proposal by SCPS and there are some sensible rationalisations which could be introduced at little cost.

AT and equivalents'
starting pay

Minimum point on these scales is being removed. Meets a claim from FDA/AIT.

Starting pay on
promotion

Amendments to the rules. Attractive to all unions.

Ex-gratia payments for
Principals

Payments in recognition of sustained periods of long hours. Should be welcomed by the FDA and IPCS.

Secretarial category

Improvements for those working in London. Attractive to CPSA.

SECRET

CSPAM

11-11-11



PRIME MINISTER

pa.
Dms
22/1

Civil Service Retirement and Re-employment Policy

You wondered whether you might make use of the attached material at Question Time.

I have discussed with Tim, and we both feel that there is unlikely to be much mileage in this for you. It is true that the trade unions would oppose withdrawal of the lump sum and re-employment option. But the basic difficulty is a legal one - the Government would be on unsafe ground in proceeding without legislation to "worsen" what has become an accepted "right" for existing staff.

Dms

mt

DAVID BARCLAY

21 January, 1985

PRIME MINISTER

CIVIL SERVICE RETIREMENT AND RE-EMPLOYMENT POLICY

Until recently, most civil servants below the rank of HEO were allowed to retire at 60, take their lump sum and be re-employed immediately in the same grade.

Ministers decided in 1983 to end this practice, on the grounds that it was wrong in principle to make it so attractive for older staff to stay on, at a time of high unemployment among young people.

But the MPO have run into trouble in implementing this decision. The difficulty is that it effectively takes away existing rights, albeit ones which have arisen by custom and practice, rather than under contract. There is thus a significant risk of successful legal challenge.

Lord Gowrie's preferred solution, when he wrote to colleagues last May (Flag A), was to amend unilaterally the Principal Civil Service Pension Scheme. Amendment would have caused a row with the trade unions, but in return it would - he hoped - have put the legal position beyond doubt.

It turns out that Lord Gowrie's hopes were ill-founded. The Solicitor General has just advised (Flag B) that amendment of the Civil Service Pension Scheme to exclude the possibility of a lump sum followed by re-employment would also be risky. He recommends primary legislation as the only safe route, though even this may require us to fend off action under the European Convention on Human Rights.

Lord Gowrie is considering his next move, in consultation with colleagues. I will keep you in touch.

DMS

17 January 1985

Is it permissible to refer to this in question - time? MS

c No
B



01-405 7641 Extn

ROYAL COURTS OF JUSTICE,

LONDON, WC2A 2LL

16 January 1985

Lord Gowrie,
Chancellor of the Duchy of Lancaster,
Management and Personnel Office,
Cabinet Office,
Great George Street,
LONDON, SW1P 3AL

Dear Gray.

CIVIL SERVICE RETIREMENT AND RE-EMPLOYMENT POLICY

This is in response to your letters of 1st May and 26th November.

I have now considered this matter with the Lord Advocate in the light of further advice from Treasury Counsel.

Your policy

We understand your policy to be that civil servants should not be obliged to retire at 60, but that if they continue in the service beyond that age they may not as of right draw a lump sum at 60.

The nature of the present entitlement

We note, first, that the right to retire formally and to draw the approved lump sum is valuable. It is equal, in rough terms, to five years' interest on the lump sum in question plus a sum to compensate for the actuarial risk of the officer concerned not surviving to collect the lump sum on actual retirement, less any increase in the lump sum pursuant to the Pensions (Increase) Act 1971.

.....



We have looked at various methods by which you might seek to achieve your policy, and I now set out our conclusions.

Amendment of PCSPS

The first proposed method of removing the right is that of amending the Principal Civil Service Pension Scheme (PCSPS) so as to make it incompetent for a lump sum to be paid before final retirement where the officer formally retires at 60 and is immediately re-employed. The PCSPS, however, is a statutory scheme pursuant to section 1 of the Superannuation Act 1972. While it may certainly be amended there is no clear indication, or any necessary implication, that it may be amended in such a way as to remove retrospectively and without compensation rights which have already accrued to persons affected by the scheme. Further, I understand that there may be future cases in which you will still wish to retain the option of encouraging particular officers to stay by allowing them to take the lump sum and continue working. We do not think it likely that an amendment of the PCSPS can be drafted to meet these requirements.

Apart from the presumption against retrospection, we anticipate also an argument based on breach of the terms and conditions of service. In a number of Departments those terms and conditions expressly provide that an officer may retire formally at 60, draw his lump sum and be re-employed. There is a substantial risk of a successful challenge should the PCSPS be amended in such a way as to take away this right.

.....



We considered a possible amendment to the PCSPS whereby a lump sum of, say, £1000 will be paid on formal retirement, the balance to be paid on real retirement at a later date. We conclude that this proposal would not meet the above objections, and that moreover it would run an increased risk of falling foul of the 1972 Act in that it could be argued, with more force, that it had the effect of reducing the amount of the pension.

We accordingly conclude that there would be a substantial risk of successful challenge if the PCSPS were amended in either manner.

Amendment of terms and conditions of employment

The next approach which we considered was to amend terms and conditions of service where these appear to confer a right on civil servants to draw an accrued lump sum in the circumstances with which we are concerned. But this is even more objectionable in "contractual" terms. As James Mackay and the Attorney General pointed out in 1979, and re-affirmed in 1983 (in relation to the paper on Contract and Discipline in the Civil Service), the arrangements between the Crown and the civil servant are essentially contractual in nature, and any attempt to change them unilaterally may be open to successful challenge. In any event we believe that a change in the staff rules cannot effectively change the entitlement to the lump sum at age 60, since this depends essentially on the pension scheme made under the 1972 Act.

Reduction of retiring age to 60

We also considered the possibility of reducing the retiring age to 60. Apart from the fact that the legality of a



unilateral reduction in retiring age is to be considered judicially by the House of Lords in March of this year, this would not fully meet your policy objective.

Compensation

Finally, we considered whether some form of compensation could be paid for the loss of the right, but this would be difficult to quantify. We think, moreover, that this would be construed as an attempt to circumvent the 1972 Act without making the necessary amendments thereto.

Conclusion

We have accordingly come to the view that the only way to implement your policy would be by primary legislation. While this might be challenged as a breach of the European Convention on Human Rights, we consider that we would have reasonable prospects of defeating a challenge based on the Convention particularly if there was some safeguard for existing rights. However, such legislation would be criticised as retrospective if it were drafted in such a way as to affect the existing rights of civil servants appointed before the legislation came into force.

The Lord Advocate has seen this letter in draft and has indicated that he agrees with it.

I am copying this letter to the Prime Minister, the Lord Advocate, other Ministers in charge of Departments and Sir Robert Armstrong.

Yours,

Patrick

CIVIL
SERVICE
Pay Pt 14

11 12
10
9
8

117 JAN

CONFIDENTIAL



10 DOWNING STREET

From the Private Secretary

3 December 1984

MERIT PAY

The Chancellor of the Duchy will have received a copy of Sir Robin Ibbs' minute to the Prime Minister of 29 November on merit pay.

The Prime Minister has considerable sympathy with the criticisms which Sir Robin makes of the papers which Lord Gowrie circulated on this subject. Whilst these criticisms do not affect the timetable for the announcement, or indeed its terms, the Prime Minister hopes that they will be given full and careful consideration. She believes that the weaknesses to which Sir Robin draws attention reflect a more general lack of management expertise within the Civil Service.

I am sending a copy of this letter, with a copy of Sir Robin Ibbs' minute, to David Peretz (HM Treasury). Copies of this letter also go to Richard Hatfield (Cabinet Office) and to Sir Robin Ibbs.

(David Barclay)

Paul Thomas, Esq.,
Chancellor of the Duchy of Lancaster's Office

CONFIDENTIAL



CGO

Prime Minister

29th November, 1984

PRIME MINISTER

Agree with Sir Robin Ibbot's
comments?

Yes - what he is
saying is - & rightly - is
that we haven't a
clue about
how to
manage
it.

MERIT PAY

I am leaving for the Far East tomorrow morning and have had time for only a very rapid look at Grey Gowrie's minute to you about merit pay. I have no comments on the proposed announcement and do not suggest that it should be delayed. However, several aspects of the other papers attached to the minute cause me concern. I see in them the work of an interdepartmental committee rather than practical experience.

1. The papers appear to me to be bureaucratic rather than managerial. There is more emphasis on how to spend the money than on how to get the improved performance.
2. Although there is a reference to the Financial Management Initiative (FMI) there is insufficient emphasis on the opportunity to make the FMI and merit pay mutually reinforcing - in particular there needs to be a close link between objectives under the FMI and the basis set for assessing performance.
3. Indeed, although there are several references to objectives, I find insufficient emphasis on the basic need for these to be as clear as possible. Without this the assessments are likely to become a subjective mess and have little incentive effect. The very large number of posts it has been decided to include in this first attempt at introducing performance pay means that there is an immense task ahead of defining objectives. It is most important that this is not skimmed or fudged.
4. There is insufficient emphasis on face to face management. By this I mean that effectiveness of the scheme will depend on line managers telling each of their staff clearly what is expected of them and then in due course seeing them again to tell them how they have done, regardless of whether they get a bonus or not.
5. I can find no reference to the very substantial accumulated experience of performance pay schemes that exists both in the private sector and in parts of the public sector overseas. Introducing a successful scheme is far from easy and it would be foolish to have Departments developing homemade schemes which fall into



- 2 -

traps that other people have already discovered the hard way. Having full regard to experience need not prevent Departments tailoring a scheme to their own needs.

My overall concern is that the so called experiments in introducing performance related pay could easily end in amateurish failure; a good opportunity to improve the performance of the Civil Service will then be wasted.

My advice is that you should urge Grey Gowrie and Robert Armstrong to ensure that note is taken at the Centre and in Departments of the sort of practical points I have outlined above.

I suggest that before the rules and guidelines are issued, it would be wise to seek advice from someone with extensive practical knowledge of introducing such schemes, so as to ensure that Departments have available the best possible practical help in a difficult task.

I am copying this to Grey Gowrie and Robert Armstrong.

ROBIN IBBS

~~CONFIDENTIAL~~ hte

ECWACA



10 DOWNING STREET

From the Private Secretary

29 November 1984

PERFORMANCE RELATED PAY AND UNIFIED GRADING

The Prime Minister has considered the Chancellor of the Duchy's minute of 23 November about performance related pay and the extension of unified grading.

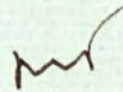
The Prime Minister would be content for Lord Gowrie to proceed next week with the announcement of the experimental scheme of performance related pay, provided that Ministerial colleagues and Sir Robin Ibbs also agree. As regards the extension of unified grading to Principals, the Prime Minister understands that a further meeting is planned between your Department and the Department of Education and Science. Assuming that the outstanding issues can be resolved bilaterally, the Prime Minister would be content for the proposed changes to be announced.

I am sending copies of this letter to David Peretz (HM Treasury), Richard Hatfield (Cabinet Office) and to Sir Robin Ibbs.

(David Barclay)

Paul Thomas Esq
Lord Gowrie's Office

PRIME MINISTER

This minute from Lord Gowrie covers two separate issues: performance related pay, and the extension of unified grading. 

Performance related pay

Cabinet agreed in July that a start had to be made with the introduction of performance related pay. Lord Gowrie is now ready to announce a 3-year experiment, limited to relatively senior staff. Operation will be largely at the discretion of Permanent Secretaries, but up to one in five staff in the grades between Principal and Grade 3 should be able to earn bonuses with a minimum value of £500. The cost is estimated at £4 million a year.

The unions will resent the narrow scope of the experiment, and Lord Gowrie therefore wants to allow as long a period of consultation as possible before the scheme is due to start on 1 April 1985.

Agree announcement next week, subject to Chancellor's views (not yet received, but expected to be generally favourable)?

Unified grading

Most colleagues have accepted, with more or less enthusiasm, the extension of unified grading to Principals. But Sir Keith Joseph remains opposed, because of the extra cost this change would impose on the research councils (estimated at £2 million a year).

A further meeting between Lord Gowrie and the Education Secretary is planned for next week. I suggest you reserve your position until then.

Agree?

DMB

David Barclay
28 November 1984



CABINET OFFICE

CCND

*From the Chancellor of the
Duchy of Lancaster*
Lord Gowrie

MANAGEMENT AND PERSONNEL OFFICE
Great George Street
London SW1P 3AL
Telephone 01-233 8610

The Rt Hon Sir Michael Havers QC MP
Attorney General's Chambers
Royal Courts of Justice
Strand
LONDON WC2A 2LL

*Await A-G's advice
(see last para)*

26 November 1984

Dear Michael,

CIVIL SERVICE - RETIREMENT AND RE-EMPLOYMENT POLICY

In my letter of 1 May to the Chancellor of the Exchequer, I sought colleagues' views on proposals for implementing fully the Government's decision to end the practice whereby civil servants are able to retire formally, receive their lump sum superannuation benefits and be re-employed immediately in the same grade.

As you will recall, in view of advice we had received from Counsel, and the legal judgement in the then recent case of *Buckwell v The Post Office*, we considered that the only safe way of putting the validity of the new policy beyond doubt was to amend the Principal Civil Service Pension Scheme (PCSPS) to prevent payment of any part of superannuation before final retirement. This was the course of action proposed in my letter. In coming to this decision, particular note was taken of legal advice that, while the unions would have a right to be consulted about such an amendment, it would not be necessary to secure their agreement to the change.

While the majority of departmental Ministers accepted that we should proceed in this way, I understand that you and the Lord Advocate have had the matter under further consideration, since there are some doubts about the legality of such a course. At present the new arrangements have been applied administratively in two-thirds of the Civil Service and may be at risk from legal challenge. As I pointed out in my earlier letter this is clearly unsatisfactory, and we need to decide what action we

should take. I understand that you will be having a further discussion with the Lord Advocate shortly. I look forward to your advice on possible options in the light of this meeting.

I am copying this letter to the Prime Minister, the Lord Advocate, other Ministers in charge of departments and Sir Robert Armstrong.

*Yours,
e/ey*

GOWRIE

COPY LIST: PRIVATE SECRETARIES TO:-

Prime Minister

Lord President of the Council

Lord Chancellor

Secretary of State for Foreign and Commonwealth
Affairs

Secretary of State for the Home Department

Chancellor of the Exchequer

Secretary of State for Education and Science

Secretary of State for Energy

Secretary of State for Defence

Secretary of State for Scotland

Secretary of State for Wales

Secretary of State for the Environment

Secretary of State for Social Services

Secretary of State for Trade and Industry

Secretary of State for Employment

Minister of Agriculture, Fisheries and Food

Secretary of State for Transport

Secretary of State for Northern Ireland

Attorney General

Minister for Overseas Development

Lord Advocate

Civil Service Pt 14
Pay + Pension



20
AC 62
1984



CONFIDENTIAL

CS/10

Chancellor of the Duchy of Lancaster

PRIME MINISTER

PERFORMANCE RELATED PAY AND UNIFIED GRADING

The Cabinet decided in July (CC(84)28 Conclusions) in favour of proceeding with a three year experimental scheme of performance bonuses for civil servants. This would begin in the financial year 1985-1986 and would apply to all staff in the grading levels from Grade 3 to Principal inclusive, at a cost of £4 million for each of the three years. The Cabinet agreed that officials should prepare detailed proposals to give effect to these conclusions for consideration by the Civil Service Ministers.

Officials have now prepared the attached proposed framework consisting of a set of draft rules and accompanying guidance. The framework envisages that permanent Heads of Departments should have a wide measure of discretion in designing and operating performance bonus arrangements. Discretion would extend to such matters as the size of individual bonus payments (subject to a minimum - designed to ensure that the money has a real impact and is not too thinly spread - of £500). Up to 1 in 5 of the staff at these levels would be able to earn a bonus for particularly good performance. Payments would be confidential to recipients. They would be made on the authority of the permanent Head of Department, and it would be made clear that Ministers would not be involved in individual bonus decisions. Sir Robert Armstrong has agreed that the guidance to accompany the rules should issue on his authority as Head of the Home Civil Service.

Permanent Secretaries have considered and accepted the draft framework. As the Cabinet recognised in July, the proposals are likely to be controversial amongst staff and there is also the danger of resentment amongst lower grades which are not included. Permanent Secretaries have stressed the need, therefore, for careful presentation of the proposals to staff and a readiness to consult the unions fully about their implementation. It is important that we announce the proposals without further delay so that there is adequate time for that consultative process before the experiments start on 1 April next.

I attach the draft of an announcement which, if you and the Chancellor of the Exchequer agree, I would like to make before the forthcoming Civil Service debate in the Lords, which means no later than 3 December. You will see that it lays stress on our willingness to consider the extension of the experiments to other grading levels. Appropriate steps would be taken to inform the staff and the unions when the announcement is made. I recognise that the answer is a little longer than is customary for a PQ reply but this seems to me to be justified in order to promote a better-informed debate in the Lords.

(Ms Hayhoe would answer a similar question in the Commons.)

CONFIDENTIAL

CONFIDENTIAL

It is also important in my view that we set the announcement in the wider context of our programme of Civil Service management reform. I am therefore anxious to include in the same announcement the proposed extension of unified grading to Principal level. On this members of the Cabinet have generally accepted my proposals, but the Secretary of State for Education and Science has reserved his position because of the implications for the science budget. Following further work by officials, I am writing separately to the Secretary of State inviting him to withdraw his objection.

Subject to resolving this issue, I would be grateful for your agreement that an announcement on the lines of the attached draft should be made on or before 3 December.

I am sending copies of this minute to the Chancellor of the Exchequer and to Sir Robert Armstrong and Sir Robin Ibbs.

Gy

GOWRIE
23 November 1984

ENCS

CONFIDENTIAL

DRAFT

Q TO ASK HER MAJESTY'S GOVERNMENT: WHAT FURTHER STEPS ARE BEING TAKEN TO IMPROVE THE MANAGEMENT OF THE CIVIL SERVICE

A The programme of action I announced in July last year was directed at the improvement of the general quality of personnel management in the Civil Service as part of the Government's overall policy for improved management efficiency, and the achievement of better value for money by all civil servants. The introduction of performance related pay, and the further extension of unified grading were two important tasks under this programme.

On performance related pay the Government believe it right to provide additional incentives to good performance. This becomes more important in a contracting organisation, where there are reduced opportunities for promotion, which hitherto has been the main means of giving recognition to good performance. Performance related pay is widely recognised outside as a valuable management tool and has been recommended to the Civil Service on a number of occasions.

At the same time the successful introduction of this kind of arrangement into an organisation as large and complex as the Civil Service would be a major operation carrying with it significant changes in the functions of managers and their relationships with their staff. There are choices to be made about the form of a performance related pay scheme, as well as about its administration and the systems and procedures needed for that purpose. Cost is also an important factor.

For all these reasons, performance related pay cannot be introduced immediately across the whole of the Civil Service. But the Government consider it important that some steps should be taken. They therefore think it right to introduce with effect from 1 April 1985 an experimental scheme under which staff at the grading levels of Grade 3 (Under Secretary) down to Principal and equivalent grades will have the opportunity to earn a bonus for particularly good performance. The experiment will last for three years and its operation will be carefully monitored. A total of £4 million is being made available to fund this initial experimental scheme in each of the three years. This will not come from existing provision for Civil Service pay and related expenditure but it will be met from within planned public expenditure totals.

The Government will enter into immediate consultations with the Civil Service unions. It is also prepared to consider with the Civil Service unions the possible extension, within the three year period of the experiments, to other grading levels, subject to further consideration of method and finance.

The steps now announced will provide a basis on which the value and operation of performance related pay arrangements in the Civil Service can be tested, and enable decisions to be taken in the light of the experience gained as to any long term arrangements.

At the beginning of this year a major simplification of the pay and grading structure in the senior management levels of the Civil Service took place with the introduction of unified grading down to the Senior Principal level.

After careful examination, the Government has concluded that it would be right and worthwhile to extend unified grading to the Principal level. This would remove formal demarcations between occupational groups, and make it easier to get the right people into the jobs for which they are best fitted, at a level at which it is particularly important to broaden experience and develop senior management talent.

This further extension of the Open Structure to a new unified Grade 7 will enable a single pay structure to be created from some 100 currently separate grades, many with different salary scales, containing over 11,000 staff.

The unions will be fully consulted about the implementation of this change and a great deal of preparatory work will need to be done. The Government wishes, however, to implement this significant further reform on 1 April next year. The cost of aligning pay of the grades concerned, including any transitional arrangements which may be appropriate, will be met from within planned public expenditure provisions.

PERFORMANCE BONUS SCHEMES
DRAFT RULES

Introduction

As part of its policy to enhance the management performance and effectiveness of the Civil Service, the Government has decided to introduce an experimental programme of performance bonuses for individuals. It will be for each department to install and operate bonus arrangements. While the scheme is competitive, the aim must be to award bonuses in a way which can be seen to be reasonable and to apply standards which can be explained to staff. The departmental arrangements must conform to the Rules set out below, which may, however be subject to revision in the light of experience and evaluation during the experimental period. Additional notes for guidance are annexed for the assistance of departments, but these do not limit the discretion of the Head of Department as to the design and operation of bonus schemes beyond the Rules themselves. "Head of Department" in these rules means the permanent head of each department. The rules applicable to any other grading levels to which experimental performance bonus schemes may be extended in the future will be issued as and when required.

Scope and Coverage

1. The initial schemes will operate for a three year experimental period commencing on 1 April 1985. All staff are to be within the scope of the initial scheme who are in the grading levels from Grade 3 to Principal level, including equivalent grading levels. Staff on loan between departments will be treated as members of the importing department. Exceptionally, a Head of Department may decide that particular groups of staff should stand outside the scheme.

2. The fund available for performance bonuses will approach 1% of the salary bill of the grades within the scope of the scheme as determined by Rule 1. But the distribution of the departmental fund as between the relevant grading levels, establishments and offices will be within the discretion of each Head of Department.

3. Performance bonuses will be taxable, and non-pensionable.

Criteria and Assessment

4. Those operating the schemes shall operate them so as to reward and encourage particularly good performance. Among the factors to be taken into account in judging whether a bonus should be awarded are:-

i) the extent to which the desired results have been achieved as a direct result of the individual's actions, taking account of the difficulty of their achievement;

ii) the energy and application shown in seeking to meet objectives and targets, including the exercise of qualities of leadership.

Distribution

5. The assessment of performance and decisions on the distribution of bonuses will be made by line management under the authority of the Head of Department.

6. Distribution of bonuses will be decided each year on the basis of performance over each separate assessment period as a whole. However, at the discretion of the Head of Department, not more than 10% of each department's bonus fund in any one year may be distributed as special bonuses to reward exceptional performance in particularly demanding tasks or situations at any time in the year.

7. The recipient of a bonus in one year is neither entitled to, nor disqualified from receipt of a bonus in any subsequent year. Not more than 20% of the staff within the scope of the scheme may receive a bonus in any one year. Special bonuses are outside this limitation.

8. The size of bonus payments may be determined under rules or guidance issued from time to time by the Head of Department. Payments may vary from one individual to another but no individual annual bonus payment shall be less than £500. Special bonuses may, however, be less than £500. Each payment will take the form of a single lump sum.

General

9. The names of recipients of bonuses will not be published, except that in the case of special bonuses publication is at departmental discretion.

10. The Head of Department will make arrangements to keep records, monitor and review the experimental schemes as a basis for assessing their effectiveness and operational efficiency.

PERFORMANCE BONUS SCHEMES

DRAFT NOTES FOR GUIDANCE BY THE HEAD OF THE HOME CIVIL SERVICE,
SIR ROBERT ARMSTRONG, GCB CVO

Introduction

1. The Rules of the experimental performance bonus schemes are intended to provide the basic framework within which all departmental schemes will operate in the Civil Service. They provide a foundation of consistency to which all schemes will conform, but are also intended to permit departments the opportunity to reflect in their individual schemes different requirements which their differing roles, organisation and management structure demand. They are also intended to provide us with information about the results of different approaches to the operation of performance bonuses to help us assess the advice to be given to Ministers at the end of the experimental period.

2. Nevertheless, I believe that departments may welcome some further notes for guidance on how their schemes may be designed and operated, and that is the purpose of this paper. But while these guidelines supplement the Rules, they do not limit the discretion of the Head of Department beyond the Rules themselves.

Scope and Coverage

3. (Rule 1) We start from the position that all staff at the relevant grading levels are to be within the scope of the scheme. It is acknowledged that special considerations may affect the way in which the performance of particular individuals or groups is assessed, for example, staff who move posts during the assessment period, staff on long training courses, recent promotees, the staff of Minister's offices, groups whose conditions already include some kind of performance pay, etc. It will be for the Head of Department to decide what supplementary arrangements may be needed in the application of the schemes to such staff, or whether indeed in exceptional cases they should be excluded altogether from their operation. Ad hoc arrangements will need to be made between the departments concerned to cover the position of staff moving on loan from one department to another during the year.

Criteria and Assessment

4. (Rule 4) Performance bonuses are intended to contribute to improving the overall effectiveness of the organisation, by encouraging and rewarding

particularly good performance and, in addition, seeking to enhance motivation more generally. The criteria are intended to reflect these broad aims and to take account of the diminishing availability of promotion as an incentive to good performance. However, I must emphasise that there is an essentially competitive element in the assessments to be made. The approach requires the distribution of a limited bonus fund between staff in the eligible grades according to judgements as to the relative performance of individuals.

5. (Rule 4) It is important for both effectiveness and presentation that assessments should be based so far as possible on known factors directed primarily towards the attainment of the objectives of the organisation, taking account of the difficulties of their achievement. One important element in the present drive to improve financial management in government departments is the setting of clearer objectives for the department as a whole and for its staff, accompanied by the improved development of measures which can be used to assess progress and performance in achieving those objectives. It must be acknowledged, however, that, especially among the more senior levels covered by this experimental scheme, a large subjective element will necessarily be present in performance assessments.

6. (Rule 4) Assessments may be made in such form as departments decide. For reasons set out in paragraphs 4 and 5 above, and because of other reasons of practicability, I can see that we cannot specify immediately a link of general and automatic application between assessment for bonus awards and the current staff reporting and appraisal procedures. But since both are based upon the same performance by the individual concerned, broad consistency between them is certainly to be expected.

Distribution

7. (Rule 5) The Head of Department will decide on the allocation of responsibility for decisions on the award of bonuses. We would expect that decisions on specific awards would normally be taken at least two levels in the line management hierarchy above that of the individual concerned. Subject to maintaining the cardinal responsibility of line management for judging performance, Heads of Department will wish to make arrangements aimed at achieving a reasonable degree of consistency in the assessment standards applied and the smooth working of the scheme. Departments may wish, for example, to establish moderating mechanisms, which, however should not detract from the

responsibility of each line management concerned for individual assessments.

Ministers have agreed that they will not be involved in individual decisions on performance bonus awards

8. (Rules 7 and 8) In determining the size and number of bonuses to be awarded from the funds available, Heads of Departments will need to take account of the overall aims of the experiments. The specific limitations within which departments may exercise this discretion are the 20% ceiling on the proportion of eligible staff who may receive awards and the minimum annual bonus payment of £500. In applying these we need to ensure that bonuses are sufficiently exceptional in number and amount as to act as a real incentive to individuals and a discipline on management judgements, but not so exceptional as to be seen by the majority as virtually unattainable, while also bearing in mind the controversy which might result from very large payments in individual cases.

General

9. (Rule 6) The timing of bonus assessments is for departments to decide provided that payments are made within the financial year to which the funds relate. Unspent funds cannot be carried over.

10. There is no requirement to set up any special appeals procedure, but staff will have access to normal existing grievance procedures. I am confident that in administering the scheme departments will guard against the possibility of claims of unfavourable treatment on grounds of race or sex.

11. Finally, I intend that decisions as to the form any longer term arrangements will be taken in the light of experience with the experimental schemes. Progress will be monitored and assessed under arrangements to be approved by me in due course, but departments will be directly accountable for their expenditure on bonuses and will need to monitor the working of the schemes. I envisage that we will need to set up liaison arrangements to ensure that our monitoring arrangements avoid duplication and are compatible.

R T ARMSTRONG

Long Term Policy

: CIVIL SERVICE

P+16.

Ref. A084/2712

PRIME MINISTER



FORB

to see

mb

Pine Martin

N 12/10

The Secretary of State for Defence mentioned in Cabinet the other day his concern about the implications for the efficiency of the public service of the fact that the level of pay increases for management staff in the private sector has recently greatly exceeded the level of pay increases for the "comparable" people in the public service, so that the Civil Service is seen to have fallen even further behind the private sector than before.

2. The Ministry of Defence lost three of their best young Principals in August and September. You may like to see the attached copies of two letters which they have sent to explain their decisions to leave the public service: the deterioration of promotion prospects, the earnings disparities, and the loss of esteem of the Civil Service in the public eye all feature in these letters.

3. The wastage is not confined to bright young administrators and scarcity groups like computer programmers. The Ministry of Defence are also losing an alarming number of scientists.

4. If these trends continue unchecked, the implications for the efficiency and morale of the Civil Service in ten years' time could be extremely serious.

5. As you know, we are doing something to encourage early retirement and to introduce merit pay on an experimental basis. These measures may slightly improve promotion prospects and motivation, but I fear that, because the measures themselves are relatively modest (and in the case of merit pay experimental) their effects will not be very great. The problem of the earnings gap is something which will have to be thought about in connection with next year's pay settlement and Top Salaries Review Body review. I hope that we may be able to persuade Ministers to use whatever opportunities are open to them publicly to commend the work of the Civil Service and the management changes which are in train: that would do much to reassure



feeling in the Civil Service, though it would no doubt be difficult to persuade the media that there was much general news value in such speeches.

6. I am sending copies of this minute and of the two letters to the Chancellor of the Exchequer and the Chancellor of the Duchy of Lancaster.

REA

ROBERT ARMSTRONG

11 October 1984



4/9/84

MINISTRY OF DEFENCE
GENERAL INVESTIGATIONS
UNIT

MINISTRY OF DEFENCE

Main Building, Whitehall, London SW1A 2HB

Telephone (Direct Dialling) 01-218 -2837

(Switchboard) 01-218 9000

5/15/84
S/K

J L L Imrie Esq
Head of CM(A)1

4th September 1984

Dear Sir,

Following our discussion on 3 September, I am now writing formally to advise you that I propose to take up an offer of employment from the merchant bank Lazard Brothers and Company Ltd and, therefore, that I wish to leave the Ministry of Defence. You kindly offered me the option of a six months' 'lifeline' by releasing me initially on special unpaid leave, and I wish to accept this. I have not yet sorted out either the fine points of my terms and conditions or the proposed transfer date with Lazards, although I am confident that there should be no last-minute hitches: I assume, however, that the six months' 'lifeline' begins on the day I start at Lazards.

I said that I would let you know in some detail why I have decided to leave the MOD. First, I should say that I go with a heavy heart: I have enjoyed enormously my work in the MOD - variously in the Private Office, Defence Sales and DS12 - and, both intellectually, and in terms of working relationships with my civilian and military colleagues, I could not have wished for a finer place to work. But three factors have eroded my confidence in the Civil Service and the Department: first, the significant loss of senior posts in the MOD following an from re-organisation must mean (even if PVR provides some slight once-and-for-all relief) that the promotion prospects to one, two - and three-star posts will now be significantly worse for junior Principals. My career prospects therefore are deteriorating, and, most depressingly of all, there is little or nothing I can do to improve my lot within the Civil Service. Secondly, Civil Service pay has fallen woefully behind that in the private sector, and I judge that, for example, my peers (lawyers, bankers, accountants etc) outside Government Service will be earning very significantly more - as much as 50-100% - than I earn, quite apart from a whole raft of additional fringe benefits. Thirdly, I feel that the status and esteem of the Civil Service in the public eye has been diminished to such an extent that it is now almost an embarrassment to admit to being a Civil Servant. Government pronouncements on, and attitude to, the Public Service give no cause for comfort - indeed, I expect the climate to get colder still.

Given that these three factors are unlikely to change - save perhaps for the worse - my analysis led me, sadly, towards the inescapable conclusion that, in order to be assured of better career and pay

prospects, and to be able to take greater public pride in my work, I would have to leave. Lazards have offered me a job which - assuming I make the grade - will satisfy these criteria. I should add that initially my pay at Lazards will be only marginally more than my current salary - I am not therefore being seduced by a fast buck - but I feel that Lazards offers career and pay prospects which far exceed those I could possibly hope for in the MOD however efficient my performance.

I hope you will find this a useful explanation of my reason for leaving. I would like to hope that the problems could be rectified so that fast streamers would not be so tempted to leave, but I see little or no prospect of this, and I regret, for the sake of the Civil Service, that more will reach the same inexorable conclusions that I have reached.

I have already mentioned that no date has yet been fixed for my arrival at Lazards. Clearly, though, I would like to press on as fast as possible, and I imagine you would wish to appoint someone to this key job in DS12 fairly soon. I should like to aim to join Lazards at the beginning of November - but perhaps we could discuss timings in detail when you have considered the 'staff plot' implication: I am of course anxious that the least possible disruption takes place within DS12, and I believe my successor should be in post a good month before the early December Ministerials in Brussels - hence the proposal for the beginning of November. I understand from CM(Conduct) that no special permission is required to take up an appointment with Lazards, as they are not in any contractual relationship with the MOD.

Would you please regard this letter as the formal notification of my intended transfer?

Yours sincerely
Jonathan Dawson
J D S DAWSON



MINISTER OF STATE FOR
THE ARMED FORCES

MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1A 2HB

Telephone 01-218 2216 (Direct Dialling)
01-218 9000 (Switchboard)

10 August 1984

D.
AM
26

Dear Mr Hasho-Smith

MH-L 10/8

When we met yesterday, I informed you that I had decided to accept an offer of employment with the Orion Royal Bank and to resign from the Civil Service. You asked me to confirm this in writing and I am now doing so.

As I said yesterday, I have had an immensely varied and interesting career in the Civil Service - first as an Administration Trainee in the ROF organisation, DS8 and IP2; then as a HEO(A) on loan to the FCO, based for part of the time in Geneva and New York as a member of the UK Disarmament Delegation to the United Nations; and more recently as a Principal in DS17, ESW(Army), DS11 and, for the past year, as the Private Secretary to Minister(AF). I could not have hoped for a better start to my career; and I can say without hesitation that I have the greatest admiration for my colleagues and that I have been enormously impressed with the quality of their work.

Much as I have enjoyed my career in the Ministry of Defence, however, I have over the past two years increasingly felt that my future does not lie in the Civil Service. The experience of the past year in particular has contributed to this process but it has not been the main cause. (I do not deny that it has placed a very considerable strain on my wife and our young family.) More important factors, as I told you yesterday, have been the steady erosion of the position of the Civil Service in the earnings league; the low regard in which I find the Civil Service is held by many of my private sector contemporaries; and, with the squeeze on Civil Service numbers, the increasingly difficult promotion prospects.

I do not see any significant improvement in the future. I admire many of the achievements of this Government and I am personally in sympathy with many of its objectives. But there is a world of difference between its performance as a Government and its record as an employer. As a line manager, I have found it increasingly difficult to justify its actions to my staff. And as an employee, I am not surprised that so many should feel demoralised and disenchanted.

(20)

my own case, however, these are not the principal reasons for resignation. In general, I regard myself as having been extraordinarily fortunate in the positions I have occupied and I shall always be grateful for the way in which my own career has been planned and managed. In my own case, the apprehension I feel for a future career in the Civil Service has come at a time when I have become increasingly interested in the operation of the international economy and in the role of the key financial institutions (this was also a particular interest in my Economics degree). I have become increasingly interested in pursuing a career in the City and the offer of employment I have received from the Orion Royal Bank will allow me to work in this field. After careful thought, I have decided to accept their offer.

When we spoke yesterday, you suggested that I might inform Minister(AF) of this decision on his return from overseas in mid-September with a view to leaving my post in mid-October. On reflection, I believe it would be in the interests of all concerned if I informed Mr Stanley as soon as possible, with a view to leaving the Civil Service at the end of September. I would not want him to learn of my resignation from a third party: not only would this be greatly discourteous on my part but it could well put you and my colleagues in a most difficult position. He has also just told me of his intention to come into the office for part of the week commencing 27 August. I therefore propose to inform him in writing early next week and to explain my decision to him in more detail when I see him at the end of August.

Finally, may I take this opportunity to thank you for all you personally have done to make my career in the MOD such an interesting and demanding one and for the interest you have shown in my progress.

Yours ever
P M W Francis

P M W FRANCIS
Private Secretary

R M Hastie-Smith Esq CB

CONFIDENTIAL

FIG

84



bcc: N. Owen

10 DOWNING STREET

From the Private Secretary

21 September, 1984

Non-Industrial Civil Service Pay 1984

The Prime Minister has seen and noted the Chancellor's minute of 17 September. She agrees that this is a satisfactory outcome.

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

ANDREW TURNBULL

Miss Margaret O'Mara,
H.M. Treasury

CONFIDENTIAL

207

CONFIDENTIAL

B/F for Chavella
bilateral

Prime Minister (2)

MR TURNBULL

I have already recorded your satisfaction with the outcome but can also make known your satisfaction at the conduct of the negotiations.

Yes no

21 September 1984

Agree?

AT

2/9

NON-INDUSTRIAL CIVIL SERVICE PAY 1984

The civil servants have been gathered in this year for 4.55%. This is a satisfactory outcome for which the Treasury Deputy Secretary handling the negotiation, Peter Kemp, deserves a lot of credit. He has stood firm on a virtually unchanged offer for 3½ months and seen off the Civil Service unions, despite a union ballot which went 7:1 in favour of rejecting the offer, and a determined bid by them to secure arbitration. Civil servants won't get their increase now until End-October. Their union negotiators have delayed the increase for 3 months, without materially improving the offer.

The lessons to be drawn from the negotiation are that it pays:

- (1) to have a credible and well constructed offer, which can be repeated ad nauseam;
- (2) not to be in a hurry to conclude negotiations;
- (3) to have a publicly announced pay factor.

The Prime Minister may wish to record her satisfaction with both the handling and the outcome of this negotiation.

NICHOLAS OWEN

CONFIDENTIAL



Prime Minister ②

AT 18/9

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

mt

PRIME MINISTER

NON-INDUSTRIAL CIVIL SERVICE PAY 1984

As I indicated in Cabinet, it now seems virtually certain that the Civil Service unions will give up their efforts to improve on the pay offer made to them on 31 May last (worth 4.55 per cent overall on the 1984-85 pay bill) and will acquiesce in its implementation.

2. This is a satisfactory outcome. But it may bring difficulties for 1985, and the unions have asked to see me early next month. Following that meeting, I shall ask my officials to consider how we might approach next year's negotiations, with a view to making a report to us later in the autumn.

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

N.L.

N.L.

17 September 1984



18 SEP 1904

12 1
2 3
4 5 6

W. B.
...

CONFIDENTIAL



Caxton House Tothill Street London SW1H 9NF

Telephone Direct Line 01-213...6400.....

Switchboard 01-213 3000

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

34
7/8
7th August 1984

Dear David,

NON-INDUSTRIAL CIVIL SERVICE PAY

with my
My Secretary of State has seen your letter to David Normington of 6 August. He is content with the course the Chancellor now proposes to take. If the unions in due course table terms of reference for arbitration my Secretary of State will of course be in touch with the Chancellor as to how their request should be handled.

Copies of this letter go to the private secretaries to the Prime Minister, other members of MISC 66, the Secretaries of State for Education and Science, and the Environment, the Attorney General and Sir Robert Armstrong.

Yours sincerely,

Peter Smith,

PETER SMITH
Private Secretary

CIVIL SERVICE : Pam #44

898
11

7-71



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

6 August 1984

David Normington Esq
Private Secretary to the
Secretary of State for Employment

Dear David

NON-INDUSTRIAL CIVIL SERVICE PAY

The Chancellor has seen the Attorney General's advice on the points set out in the Chancellor's minute to the Prime Minister of 23 July.

As your Secretary of State will know, the Attorney General advises that there will be no significant risk of a successful action against the refusal by the Secretary of State for Employment to refer the Civil Service pay claim to arbitration, or the decision by the Treasury to implement a pay increase unilaterally, provided that in each case the unions are given a reasonable chance to make fresh representations before the decision crystallises. He goes on to say that as part of the process of consultation the Secretary of State should articulate the "grounds of policy" which justify a refusal to refer the pay claim to arbitration and thus given the unions an opportunity to comment on their adequacy. Today's Court of Appeal judgement in the GCHQ case does not, we are advised, affect any of this.

None of it means, of course, that the unions could not seek to embarrass the Government with legal action, even if unsuccessful. But the Chancellor believes that we should now proceed on the lines agreed in MISC 66 on 4 July and endorsed by the Cabinet on 5 July. Accordingly Treasury officials will tell the Civil Service unions tomorrow that the Chancellor has carefully considered the points put to him when he met them, but has concluded that the Government has to stand by the offer made on 31 May, worth 4.55 per cent on the 1984 pay bill.

Following the meeting it is probable that the unions will table terms of reference for arbitration. Thereafter we cannot dictate the timing, and there will be need for consultation. However, we shall make it clear that we stand ready to implement the offer. It is likely that there will be industrial action of some kind before matters are resolved, perhaps particularly among computer operators, but we do not expect such action to be widespread or sustained. We shall, of course, keep you in close touch with developments.

I am copying this to the private secretaries to the Prime Minister, other members of MISC 66, the Secretaries of State for Education and Science and the Environment, the Attorney General and Sir Robert Armstrong.

Yours ever,
David

D L C PERETZ
Principal Private Secretary

CS Pay

33

CC No

Prime Minister (2)

To note that Chancellor proposes to resubmit existing offer to the union side

AT

6/8

CS: Pay: R- 14

6 AUG 1984

10 11 12 1 2 3 4 5 6 7 8 9



Handwritten initials and date: J 15/8

H. M. TREASURY

Parliament Street, London SW1P 3AG, Press Office: 01-233 3415
Telex: 262405

15 August 1984

NON-INDUSTRIAL CIVIL SERVANTS' PAY 1984

In the absence of the Chancellor of the Exchequer representatives of the Council of Civil Service Unions today (August 15) saw Treasury Minister of State Mr Barney Hayhoe. Mr Hayhoe confirmed that the pay offer of 31 May could not be further improved. It was a fair offer and was the limit of what was affordable.

Successive governments had consistently and publicly reserved the right on policy grounds to refuse to go to arbitration. The unions had already been told that this year on public expenditure grounds the Government was minded to exercise this right. However, what the unions had said would be very carefully considered and a reply would be given as soon as possible.

The Government remains concerned that it is now over four months beyond the due date for the payment of this year's increases and hopes that in consultation with the unions matters can be brought to an early conclusion so that staff could have their money.

PRESS OFFICE
H M TREASURY
PARLIAMENT STREET
LONDON SW1P 3AG
01 233 3415

145/84

NOTE TO EDITORS

The offer made comprised increases of 5 per cent for staff on flat rates and scale maxima and 4 per cent for staff on other scale points, plus an underpinning minimum increase of £3 per week for full-time staff aged 18 and over and an increase of 4 per cent in most pay related allowances, all from 1 April 1984; increase in rate of London Weighting by 4 per cent from 1 October 1984; and rationalisation of scale points at executive officer and clerical officer levels completed from 1 January 1985. This offer would add just under 4.55 per cent to the 1984-85 paybill.



Prime Minister 2 a As 32

A number of colleagues were unhappy about the Chancellor's tactic of making a small increase in the offer to keep negotiations in play. They felt it undermined the "final" offers in a number of other areas. Chancellor has agreed to reconsider.

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

27 July 1984

AT 30/7

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

NON-INDUSTRIAL CIVIL SERVICE PAY

I have seen a copy of your minute to the Prime Minister of 24 July.

I appreciate your concern that a revised offer to the non-industrial Civil Service should not disturb the delicate NHS negotiations, and had it not been for Glidewell, I should by now have been pressing home the current offer on the lines we agreed in Cabinet on 5 July. But the Glidewell ruling has introduced a possible complexity which we cannot ignore, and for this reason, I think our best tactic is to play the negotiations long until the position is clearer. It is difficult for us to do this without introducing some new element but in view of what you have said, I have asked my officials to make no increase in the offer for the present. However, we clearly need urgent legal advice and I therefore hope we can have the Attorney's views by early next week. We can then, if necessary, meet as you suggest, to consider the way forward.

I am copying this letter to the Prime Minister, to the other members of MISC 66, the Secretaries of State for Environment and Education and Science, the Attorney General and to Sir Robert Armstrong.

NIGEL LAWSON

Civil Service: Pay 144

11 12 1 2 3 4 5 6 7 8 9 10

27 JUL 1984

31

MSPN

CCNO

AT 27/17

SECRET

PRIME MINISTER

NON-INDUSTRIAL CIVIL SERVICE PAY

1. I have seen the minutes you have recently received from the Chancellor and the Secretary of State for Social Services.
2. It seems to me important that we should do nothing in relation to civil service pay that will make it more difficult to achieve the settlements at 4.5% which Norman says now appear possible within the NHS. Apart from the points Norman makes - to which I attach importance - we should also recognise that any negotiated settlements at 4.5% within the NHS in advance of the teachers' arbitration hearings would be very helpful in that context.
3. Copies of this minute go to members of MISC 66, to the Secretary of State for the Environment, to the Attorney General and to Sir Robert Armstrong.

ly

27 July 1984.

SECRET

Curt Sarree PT14

Ray

27 JUL 1984

SECRET

CC 30
AD



NB
AD 26/7

Caxton House Tothill Street London SW1H 9NF

Telephone Direct Line 01-213.....

Switchboard 01-213 3000

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Great George Street
LONDON SW1

26 July 1984

Nigel

NON-INDUSTRIAL CIVIL SERVICE PAY

You copied to me your minute of 23 July to the Prime Minister. I agree that the Law Officers' views should be invited on our previously agreed course of action in the light of the Glidewell judgement. The main questions are both the handling of a refusal of arbitration and the imposition of a final offer, but I am in no doubt that we must seek to avoid an accusation that we acted without consultation. At the same time we need to be clear that the refusal of arbitration "on grounds of policy" is, if necessary, defensible. My officials are consulting yours on the framing of the necessary submission.

I have now had a chance to see Norman Fowler's minute of 24 July to the Prime Minister. I must say that I find compelling his arguments against making a further offer to the civil service unions and agree with him that there is a strong case for standing on the present offer.

I am sending copies of this letter to the Prime Minister, to other members of MISC 66, to the Secretaries of State for the Environment and Education and Science, to the Attorney General and to Sir Robert Armstrong.

Lawson

la

SECRET

CIVIL SERVICE: Pay = Penny



Ref. A084/2143

PRIME MINISTER

Performance-related Pay

(C(84) 20)

INTRODUCTION

You discussed merit pay with the Chancellor of the Exchequer and the Minister of State, Privy Council Office, together with Sir Robin Ibbs and me on 23 July. Lord Gowrie was invited to circulate proposals to the Cabinet for an experimental merit bonus scheme to be applied as soon as possible to the grades of Principal up to Grade 3 (Under Secretary).

2. Lord Gowrie's paper raises three main issues for decision by the Cabinet:-

- (i) whether in principle merit pay should be introduced into the Civil Service, initially through a limited experimental bonus scheme;
- (ii) if so, what grading levels should be covered in the initial experiment;
- (iii) how should the costs of the bonuses be financed.

Subject to the Cabinet's conclusions on the broad principles and coverage of merit pay experiments, the paper proposes that officials should be instructed to prepare detailed proposals for implementing and operating schemes.

MAIN ISSUES

Should merit pay be introduced at all?

3. The case for merit pay has partly to do with its role in sharpening the managerial awareness and personal accountability of Civil Service managers. In the nature of much Civil Service work, managers do not necessarily experience the personal consequences of success or failure as can occur in the private sector and it would be in accordance with the change of management style which developments such as the FMI are seeking

to foster if, through the operation of merit or performance-related pay, staff had a greater personal stake in the achievement of objectives and results. In part, the case for merit pay has to do with the sharp diminution in promotion prospects which is a consequence of the rundown in numbers, but which may damage the motivation of talented staff who see their own career prospects in somewhat bleak terms compared with their predecessors. Merit pay offers a means of recognising good people which could to some extent compensate for the reduced availability of promotion as a reward.

4. Some members of the Cabinet may question whether a system of merit pay would produce benefits in terms of increased motivation and effectiveness commensurate with the financial costs. It would mean a major change in the culture and climate of the Civil Service, and there is room for more than one view about whether the introduction of differential rewards and the resulting greater sense of personal competition would enhance the performance both of those performing well (whose motivation might already be high) as well as those performing more moderately; and about whether this effect would outweigh the possible damage to the spirit of co-operation between officials which remains important if Ministers are to be properly and effectively served. Permanent Secretaries, who have been consulted informally in the course of the preparation of this paper, mostly agreed that the time had come to try merit pay in the public service, but were concerned about the risk of divisiveness.

5. It is the experience of all employers that the introduction of merit pay involves a significant addition to the pay bill, typically in the range of 2-5 per cent. The effectiveness and benefits of this expenditure cannot be demonstrated objectively; but the fact that the private sector, and some parts of the public sector (and public services in other countries), do operate such arrangements suggest that there is a link between motivation and financial reward. There is not any good reason to think that such a link would not exist in the Civil Service.

6. The judgment must necessarily be a subjective one, and it seems unlikely that it will be elucidated by further study. If the Cabinet takes the view that merit pay can be afforded and should be pursued, then it may agree that the start should necessarily be limited and experimental as Lord Gowrie proposes, both so that the complex questions of practicability can be explored and in order to manage the cost implications. In agreeing to an experimental scheme in principle it will be important that the Cabinet should recognise:-

- (a) that there would be no commitment to continuing the arrangements after the three-year experimental period if the experiments are not successful;
- (b) but that there will be a strong presumption in favour of continuing and extending the arrangements ultimately to the whole of the Civil Service if the experiments are successful.

7. The Chancellor of the Exchequer may have reservations about (b) above because of the financial commitment it may imply. But there would be little point in embarking on experiments at all if the Cabinet were not prepared to agree now to accept the implication (and intention) that the experiments should lead to permanent and more comprehensive arrangements. It would be particularly damaging to staff motivation if Ministers were to decide not to go ahead after a successful experiment.

8. Other points are:-

(a) The Chancellor of the Exchequer places great importance on the proposition that the award of bonuses should be confidential to the individual. Outside practice varies. The Chancellor can be supported in this.

(b) It will be important that Ministers should take no part in the processes of deciding who receives bonuses.

(c) Although there should be an early announcement, if the Cabinet decides to go ahead with what is proposed, it is important that nothing should be said publicly while the present Civil Service pay negotiations are still in train. Any suggestion that extra money is available for this sort

of purpose would lead to immediate demands that it should be spread across the staff as a whole. The timing of the announcement must therefore be reserved to yourself, the Chancellor and Lord Gowrie in the light of other developments.

- (d) Although the sums of money involved are small, there may be questions about how the money is to be found, given that it will lie outside "the existing overall provisions for Civil Service pay". This is a matter for detailed discussion between the Treasury and Departments, and it would be profitless for the Cabinet to pursue it further now.

Financing

9. Since the initial experiments will apply to only a small minority of civil servants (the grades from Principal to Grade 3 (Under Secretary) represent some 3 per cent of the total Civil Service) it is particularly important that the cost is not seen to be at the expense of the provision made for the pay of the majority who will be outside its scope. In the longer term the financing of merit pay covering the whole Civil Service would clearly need to be taken into account in determining total provision for pay.

Implementation

10. A number of detailed questions remain to be settled about the operation of merit bonus arrangements. These include such matters as the detailed criteria for the award of bonuses, the administrative and operating procedures, the size and number of bonus payments within the financial provision, the budgetary control mechanisms, the treatment of staff who are on loan from their own Department or who are posted during the assessment period etc. The Cabinet does not need to decide such matters now. They need further study by officials; on some of them the Civil Service unions ought to be given an opportunity to express their views. Once the Cabinet has decided the broad parameters of the experimental schemes, this detailed work can be put in hand within the framework so established.



CONCLUSIONS AND NEXT STEPS

11. The Cabinet needs to decide whether it accepts the recommendations in paragraph 13a.-c. of C(84) 20, that is:-

- (a) an experimental programme of confidential merit bonuses covering the grades from Principal up to Grade 3 (Under Secretary) starting if possible on 1 April 1985; to run for a period of three years; at a cost of £4 million a year financed separately from general pay provision; all subject to review in the light of experience with the experiments;
- (b) agreement to indicate in an announcement a willingness to discuss with the Civil Service unions the possibility to further experiments at lower grading levels, without commitment as to method, timing or finance, but on the understanding that any such schemes could be authorised to begin within the three-year period.

12. If the Cabinet endorses these proposals, they may agree with the recommendations at paragraph 13d. and e. of C(84) 20, which commissions further work by officials on the practical and operational arrangements. Thereafter the sequence of events would be for an announcement to be made of broad intention as to the size and scope of initial experiments; for officials to be authorised to consult the unions as part of the process of formulating detailed proposals; and for these proposals to be submitted to Ministers this autumn, so that the experiments can start from 1 April 1985. Lord Gowrie might be invited to agree terms and timing of an announcement with the Chancellor and clear it with you.

25 July 1984

R
Approved by
ROBERT ARMSTRONG
and signed in his absence.



PRIME MINISTER

NON-INDUSTRIAL CIVIL SERVICE PAY

I have seen Nigel Lawson's minute to you of 23 July.

Whether or not the Civil Service Unions accepted the revised offer which he suggests, there must be a strong probability that the Government's readiness in principle to move to secure a settlement would become known in wider Trade Union circles. At the very least it could be expected to become known to the Government Industrial Unions, which also negotiate for NHS staff. The consequences of this would be profoundly damaging for our position in respect of the NHS non-Review Body groups.

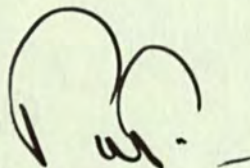
We have reached provisional agreements with most of the main groups at the 4.5 per cent figure authorised by colleagues. Each of these agreements is subject to consultation within the unions concerned, without a recommendation but on the basis that the negotiators are satisfied that this is management's final offer and the best that can be achieved by negotiation this year. The indications are that, as matters stand, the offers will be accepted, although some individual unions are not happy. We expect to reach agreements on a similar basis with other groups in the next week or two. There are more difficult negotiations in prospect with maintenance and ambulance staff, where our chances of success are likely to depend critically on translating the provisional agreements for other NHS groups into settlements.

The leading settlement - the ancillary workers - will not be ratified until 10 August and the others will take at least as long. The timing of the maintenance and ambulance staff's negotiations is uncertain, but the latter in particular could be protracted and the staff themselves, virtually alone in the NHS, are making militant noises.

Whether or not the Government's offer to the Civil Service has been described as final, it is widely regarded as being so. If it is improved in any way, the message for the NHS Unions will be clear: refusal to settle pays. I think there is a very real risk, to put it no higher, that an improved Civil Service offer made before our settlements are formally ratified - and that certainly means within the next six weeks - would, if it became known, lead to rejection of some or all of the NHS offers, with all the consequences and difficult choices which would flow from that. There are also implications for future negotiations, not only, I would have thought, in the NHS.

NHS implications apart, I am very doubtful about the wisdom of buying time by increasing an offer to a level which cannot be expected to produce agreement. I would ask that there should be an opportunity for discussion amongst colleagues before Nigel proceeds as he suggests.

I am copying this minute to other members of MISC 66, to the Secretaries of State for the Environment and Education and Science, to the Attorney General and to Sir Robert Armstrong.



N F

^{HR.}
24 July 1984

Civil Service Pay Pt 14

25 JUL 1984

112 - 23456
L B A



SECRET



cc MOD ✓
DHSS ✓
D/M ✓
M/S Privy Council ✓
M/S HMT ✓
Peter Kemp HMT ✓
bcMr. Owen ✓

do

28

10 DOWNING STREET

From the Private Secretary

24 July, 1984.

Non-Industrial Civil Service Pay

The Prime Minister has seen the Chancellor's minute of 23 July and, subject to the views of colleagues, including the Attorney General, agrees with the approach suggested.

I am copying this letter to Private Secretaries to Members of MISC 66, John Ballard (Department of the Environment), Elizabeth Hodgkinson (Department of Education and Science), Henry Steel (Law Officers' Department), and Richard Hatfield (Cabinet Office).

Andrew Turnbull

David Peretz, Esq.,
HM Treasury.

SECRET

SUBJECT cc Master Set

he SD

c. Policy Unit

CONFIDENTIAL



10 DOWNING STREET

From the Private Secretary

24 July, 1984.

Dear Mary,

Performance Related Pay

The Prime Minister chaired a meeting on 23 July to consider the proposals on performance related pay set out in Lord Gowrie's minute of 13 July and the attached draft Cabinet Paper. Also present were the Chancellor of the Exchequer, Sir Robin Ibbs, and Sir Robert Armstrong.

Lord Gowrie said that the concept of performance related pay assumed special importance at a time when promotion opportunities in the Civil Service had been reduced, and pay levels generally were being kept under the firmest control. Performance related pay was an essential management tool, which could help to motivate individuals and to concentrate the minds of managers on assessing the merits and demerits of their staff.

The successful introduction of performance related pay would depend on avoiding an industrial relations wrangle. Your Minister proposed an experimental scheme, to run for three years. The cost could be met from within planned public expenditure totals, but for presentational reasons it would in his view be essential to avoid deducting it from the allocation made for Civil Service pay. £4 million would be sufficient to finance a scheme for senior grades between Principal and Under Secretary, but your Minister's view was that it would be well worth raising this figure to between £6 million and £10 million to permit the prospect of extending the scheme to more junior grades.

The Chancellor of the Exchequer emphasised that the cost of performance related pay should be absorbed in full by Departments. The introduction of merit bonuses should not be seen as a back door way of increasing Civil Service remuneration.

Sir Robin Ibbs agreed that performance related pay offered an important opportunity to improve the quality of

CONFIDENTIAL

JS

management in the Civil Service. It was for Ministers to decide where the money should be found - but if it was believed by the staff to come out of the pockets of colleagues, the proposed scheme would get off to a bad start. In his view it would be right to begin with a relatively small group of staff, provided that the possibility of extension could be kept open. The crucial grade for successful implementation of the scheme would be Under Secretary, since it was at this level that responsibility focussed under the financial management initiative.

Summing up a brief discussion, the Prime Minister said that the meeting was agreed that, subject to the views of the Cabinet, there should be an experimental scheme of performance related pay covering the four grades between Under Secretary and Principal inclusive. The experiment should run for three years from 1 April, 1985. Its cost, which was estimated at £4 million a year, should be found from within planned public expenditure totals, but not specifically from the allocation for Civil Service pay. In introducing the experiment, the Government should make clear that the possibility of extending performance related pay to more junior grades would be considered in the light of experience, but before the full three years had elapsed. If, as a result of the experiment, the Government decided to introduce performance related pay on a more permanent basis, the method of financing would require further consideration.

The Prime Minister invited your Minister of State to revise his draft paper in the light of the discussion, and to circulate it to members of the Cabinet.

I am sending copies of this letter to David Peretz (HM Treasury, Ian Beesley (Sir Robin Ibbs' Office), and Richard Hatfield (Cabinet Office).

Yours ever,
David

David Barclay

Mrs. Mary Brown,
Office of the Minister for the Arts.



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

Prime Minister ①

Agree, subject to the views of colleagues (though we would not want unions to know why we were playing for time)?

AT
23/7

PRIME MINISTER

NON-INDUSTRIAL CIVIL SERVICE PAY

On 4 July MISC 66 agreed that we should stand by the offer made to the non-industrial civil servants on 31 May, that arbitration should be refused, and that the offer should be implemented, by imposition if necessary, so that the maximum number of people would receive their back pay by the end of August. Cabinet endorsed this on 5 July.

2. Since then, my officials have had further informal contacts with the Civil Service unions, and I met them myself on 13 July. At that meeting I promised to consider what I had heard but said I held out little, if any, hope of an improved offer.

3. Our tactics so far have been based on the presumption that we shall refuse arbitration on grounds of policy and, ultimately, move to impose the offer. But before plunging into this, Tom King may wish to consult the Law Officers on the implications Glidewell could have for the handling of the refusal of arbitration. In any event I think it would be sensible for us so far as we can to play the pay negotiations along until we know the outcome of the GCHQ appeal.

4. This will not be easy, but I propose that my officials should be authorised to continue discussions with the unions and make a private, without prejudice, offer later this week of an increase in the underpinning of up to £1 per week, on condition that this would form the basis of an agreed settlement. This would raise the 1984-85 cost of the offer from 4.55 per cent to 4.64 per cent, but I do not in fact believe the unions will

SECRET



be prepared to settle in return for this marginal improvement. Their own terms for a settlement appear to be 5½ per cent from 1 January 1985 for those on flat rates or maxima, an increase in the underpinning of 80p per week, and a bringing forward of the rationalisation of EO/CO pay. This would cost 4.72 per cent on the 1984-85 pay bill and just over 5 per cent in a full year. It is almost certainly less than the unions would secure at arbitration, but in every other respect I find it profoundly unattractive.

5. Assuming that an improvement of up to £1 per week in underpinning does not bring a settlement, I believe we should proceed as we originally agreed: stand firm on our present offer, refuse arbitration, and, if necessary, eventually impose a settlement. By proceeding in this way, we shall almost certainly provoke some form of industrial action but I do not expect it to be widespread or sustained. However, the Glidewell judgement has complicated the picture and in present circumstances we shall want to be clear about the legal position before we go down this road.

6. A copy of this minute goes to other members of MISC 66, to the Secretaries of State for the Environment and Education and Science, to the Attorney General and to Sir Robert Armstrong.

A handwritten signature in black ink, appearing to be 'N.L.' with a flourish.

N.L.
23 July 1984

CONFIDENTIAL

PRIME MINISTER

PERFORMANCE-RELATED PAY

There is only one point I would like to add to
the Policy Unit brief.

It would be wrong to shy away from the major change
in Civil Service culture which merit pay implies. The days
of a uniform percentage increase for everyone should be over.
Some should get more - which means some will get less. To
fund merit pay entirely from new money would be to lose the
opportunity to drive this message home. It would also reduce
the chance of success by constraining the funds available.

Dub

20 July, 1984

CONFIDENTIAL

CONFIDENTIAL

PRIME MINISTER

20 July 1984

PERFORMANCE-RELATED PAY

The proposals are now on the right lines - annual, non-
pensionable, awarded on merit, related to FMI targets.

The issues for resolution are whether £4 million, or
£10 million should be made available, and whether as "new
money" or from Departments' existing planning totals. We
favour the larger sum, presented as "new money". The scheme
will encounter strong resistance. Although civil servants
will welcome a chance to earn extra money, they will not
take easily to putting a money value on those with whom they
work closely rather than merely grading them as "average",
"good", "outstanding". The Civil Service unions will oppose
the concept because it gives more power to management. We
will therefore have to buy acceptance of the principle, by
offering new money.

£10 million, rather than £4 million widens the
experiment. For management reasons this is important
because the problems of motivating and grading senior
officials will be different from those involved lower down,
and in different parts of the Civil Service. If there is no
general experimentation throughout the Civil Service next
year, it may take six rather than three years to demonstrate
the system.

CONFIDENTIAL

CONFIDENTIAL

The Treasury are naturally concerned about the public expenditure implications. They may be worried unduly because:

i. There is a minimum size of pay package which can secure settlements. The shape of the package itself need not affect total cost. This implies that those who are awarded merit pay will, in the end, gain at the expense of those who are not.

ii. The Government may soon have in any case to increase the real pay levels of civil servants, which are falling behind those in the private sector. Better to include a merit pay element in this increase than simply to grant flat rate increases to all.

Nicholas Owen
NICHOLAS OWEN

CONFIDENTIAL

PRIME MINISTER

PERFORMANCE RELATED PAY

It has taken Lord Gowrie and the Chancellor a long time to come back to you on the subject of performance related pay. There are still unresolved differences between them on two points:

- (i) Coverage - the Chancellor wants experiments restricted to senior ranks from Principal to Under-Secretary. Lord Gowrie wants to include more junior officers too.
- (ii) Finance - the Chancellor is prepared to provide £4 million, but wishes this amount to be found as far as possible from existing allocations. Lord Gowrie is seeking a higher figure to allow an extension to junior grades.

It would clearly be better if these differences could be resolved before a paper is circulated.

Agree to discuss with the Chancellor, Lord Gowrie, and Sir Robin Ibbs?

Yes mb

Buried in the middle of the draft Cabinet Paper is an argument which seems to me fallacious. In paragraph 6(d)(1) it is argued that "staff will need to be reassured that the systems are not merely devices to take money from the generality to give to the favoured few". It seems to me that this is precisely what merit pay schemes are intended to do, and that there must be some element of re-distribution as well as new money in any effective scheme.

Agree to cover this issue in the proposed meeting?

Yes

The Megaw proposal on job weighting for Permanent Secretaries has been dropped from the draft paper, on the grounds that it is not strictly relevant to merit pay. Lord Gowrie proposes, if you agree, to send you a letter about this, circulated to Cabinet colleagues, as a means of reaching a decision.

Content to deal with this in correspondence?

Yes

ms

Dub

DAVID BARCLAY

16 July 1984



10 DOWNING STREET

From the Private Secretary

17 July 1984

PERFORMANCE RELATED PAY

The Prime Minister was grateful for Lord Gowrie's minute of 13 July to which was attached a draft Cabinet paper on performance related pay.

The Prime Minister agrees that the issues which remain unresolved between Lord Gowrie and the Chancellor should be discussed before any paper is circulated to members of the Cabinet. We will be in touch with both your offices, and with Sir Robin Ibbs and Sir Robert Armstrong, to arrange a time.

The Prime Minister has noted that Lord Gowrie will be putting forward proposals shortly on unified grading at Principal level. She also agrees that he should now circulate a letter on the question of job weighting for Permanent Secretaries.

I am sending copies of this letter to Margaret O'Mara (HM Treasury) and to Sir Robin Ibbs and Sir Robert Armstrong.

David Barclay

Mrs Mary Brown
Lord Gowrie's Office

CONFIDENTIAL

NBM BT 13/17 CENO



2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:
Your ref:

13 July 1984

Dear Nigel,

CIVIL SERVICE INDUSTRIALS: 1984 PAY NEGOTIATIONS

I understand that you deferred for a short time the start of these negotiations about which you wrote to Michael Heseltine on 20 June.

I agree with your proposal to seek a settlement within the limits of our offer for the non-industrials. I accept that we shall have to absorb the extra cost in some way within existing cash provisions.

I am copying this letter to the Prime Minister, other members of E(PSP) and to Sir Robert Armstrong.

Yours
Patrick

PATRICK JENKIN

Civil Service: Pay Pt 15.

13 JUL 1984





Prime Minister (11)

PRIME MINISTER

There are unresolved differences between the Chancellor and Lord Gove on merit pay. Agree to discuss with them, plus Sir Robin Ibbotson, before a paper is circulated to the Cabinet?

PERFORMANCE-RELATED PAY

You held a meeting on 16 March to consider the introduction of performance-related pay, on an experimental basis, into the Civil Service and the Chancellor of the Exchequer and I were invited to prepare a paper for Cabinet.

Sub
16/3

We have done so and I now attach an agreed draft which sets out the position we have reached. Although we have a common view on the substance of the issues, we have been unable to agree on two important points. These are the coverage of the experimental bonus schemes and the manner in which they are to be financed. The Chancellor wants the experiments restricted to the senior ranks from Principal to Under Secretary whereas I believe it important for both practical and presentational reasons to spread the experiments more widely into junior levels (if necessary at the expense of dropping Principals from the senior experiment). The Chancellor also wishes to limit expenditure to £4 million to be found as far as possible from within existing cash allocations. I believe that, while £4 million is adequate for experiments at senior level, we ought to be prepared to contemplate somewhat higher expenditures - at least in terms of forward planning - as we identify worthwhile experiments lower down the line and as results begin to come through. This would ease the task of persuading staff to accept the introduction of the experiments. I believe that only clear signals as to the extent of the Government's interest will make the experiments productive and worth pursuing.

There are two other matters to which I should also draw your attention. The first of these relates to proposals, which are now at an advanced stage of development, for extending unified grading to Principals and their scientific, professional and technical counterparts. This would be a very important major reform of Civil Service structures and, because unifying the grades inevitably means unifying pay, it would open up possibilities of introducing a more permanent form of merit pay at this level. We are still in discussion with the Treasury and other Departments about this but I hope to be able to come forward to you with a set of proposals on unified grading at Principal level in the next 10 days or so. If it proves possible to devise suitable arrangements (including an element of merit pay) at this level it should be significantly easier to take decisions about the details of the merit bonus proposals.

CONFIDENTIAL

You will in any case I think wish to discuss the merit bonus proposals, and the fundamental issues involved, with us and with Sir Robin Ibbs. And a meeting for this purpose would need to take place soon if we are to take the question to Cabinet before the recess. I hope that we will also be able to make sufficient progress on unified grading for this to be taken into account at the Cabinet meeting.

The second related matter is the Megaw proposal to adjust the pay of Permanent Secretaries to reflect more closely the relative weight of the jobs they carry. We have now left this out of the paper because it is not strictly a merit issue. It would nevertheless be convenient if the question of whether to make a reference to TSRB on this Megaw recommendation could also be settled soon so that Lord Plowden and his colleagues can advise us in the course of their current review. If you agree, I will write you a letter, circulated to Cabinet colleagues, which could provide a peg for a decision on the point.

Agree?

Doubt
16/7

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

gg

LORD GOWRIE

13 July 1984

CONFIDENTIAL

CONFIDENTIAL

PERFORMANCE-RELATED PAY: DRAFT CABINET PAPER

1. Ever since we took office in 1979 we have accepted in principle the desirability of introducing some form of performance-related pay in the civil service. We invited the inquiry into civil service pay (the Megaw Committee) to make recommendations on this subject. They did so two years ago. Since then we have committed ourselves on various occasions to considering ways of making progress. But we have done nothing so far, partly because of uncertainty and differences of opinion about the best system of performance-related pay for the civil service and partly because of uncertainties about cost.

2. We are engaged upon a profound change in the style and professionalism of management in central government, with much greater emphasis on value for money, on the clear definition of objectives and personal accountability for results, and on the dispersal outwards and downwards of financial responsibility. We have already taken a number of important steps, including the Financial Management Initiative (FMI) and the introduction of a programme of reform of personnel work. We need to support this programme of change by encouraging good performance and improving motivation in the civil service.

3. Motivation is not of course just a matter of money, particularly in the public service. Some would argue that performance-related pay, other than that which results from the

CONFIDENTIAL

system of promotion in a hierarchical structure, is alien to the culture of the public service. But many organisations, in the public sector as well as the private sector, have adopted performance-related pay arrangements, and such arrangements are a feature of pay systems in public services in many other countries. There must be at least a presumption that there is a link between motivation and financial reward which would be valid in the public service no less than elsewhere. We can test this presumption only by trying out a system of performance-related pay in the public service. I suggest that the time has come to do just that: to see whether it works in the public service, and if so how it works, on a basis which enables us to discontinue the system if experiments suggest that after all it has no place in public service pay, at least at levels which the taxpayer can afford.

4. The case for testing a system of performance-related pay is strengthened by the sharp diminution of promotion opportunities which is the consequence of our reductions in the size of the civil service. About two-thirds of the civil service are paid on fixed rates or are at the maximum of incremental pay scales and have no current possibility of improving personal rewards other than through the general annual pay increases. The possibility of receiving additional pay for good performance could provide additional incentives to such people. Nor will it only provide recognition for good performance by individuals based as far as possible on objective performance criteria; it will also improve management by obliging managers consciously

CONFIDENTIAL²

CONFIDENTIAL

to assess, and to be prepared to comment upon, the performance of those for whom they are responsible.

Megaw

5. Colleagues will recall that the Megaw Report envisaged a two-pronged approach -

a. performance-related pay ranges in place of rates or scales for staff at Grade 3 (Under Secretary) down to Principal level;

b. performance related bonuses for non-industrial staff at Senior Executive Officer (SEO) and below;

Basic considerations

6. In coming to a decision on these matters we need to bear four considerations particularly in mind -

a. Cost: the perceived cost of a fully-fledged merit or performance-based pay system is bound to be high. Private sector experience points to a general range of perhaps 2-5 per cent of the pay bill. Improved performance should produce offsetting savings, but these are, in the nature of things, exceedingly difficult to quantify.

CONFIDENTIAL

All that can be said with certainty is that many other employers have had sufficient faith in the value of personal incentives to introduce performance-related pay in their own organisations. Most of them would agree that their decisions to introduce performance-related pay were acts of faith rather than of precise calculation; and a number would express doubts about whether they had actually obtained value for money.

b. Motivation: the objective of introducing performance-related pay is to improve the overall effectiveness of the organisation. If the systems or methods chosen do not have this effect - if, for instance they demotivate more staff than they motivate - it is clearly better not to introduce them at all. Moreover if we start on this road, however tentatively, we need to be clear from the outset that we are ready to follow through the logic of our actions. Thus if the limited experiments I am suggesting in this paper show promise we shall be expected to go forward - which would imply finding significant sums of money in future to finance more widespread systems.

c. Acceptability: a key feature in the motivational effect of any new system will be its acceptability to staff. I say "staff" deliberately because, although we shall need to consult the unions, they are likely to oppose

4
CONFIDENTIAL

CONFIDENTIAL

merit or performance-related pay in principle.

Acceptability to staff will be determined by a number of factors;

There must surely be some element of re-distribution

*2ms
16/7*

i. Staff will need to be reassured that the systems are not merely devices to take money from the generality to give to the favoured few; in my judgement this means that, when a system is introduced for the first time, we should not be thought to be financing it wholly from funds that would otherwise have been available for general pay increases.

ii. They will want to be satisfied that the systems and criteria we propose are "fair": in part this is a question of mechanisms (though we do not want to be too elaborate); in part a question of staff experience of the new arrangements in action; but above all a question of avoiding any taint of favouritism. It will be particularly important that the distribution of awards should be, and seen to be free from political (including ministerial) influences.

d. Method: the private sector uses a wide range of different systems for distributing merit and performance rewards. The commonest are merit progression through incremental scales; merit additional to incremental scales; and bonuses of various kinds. Private firms often use a

CONFIDENTIAL

mixture of these techniques as a means of achieving maximum management flexibility to differentiate the pay of individuals within a structured system. in our case the sheer size and complexity of the civil service means that we shall need to start with simple mechanisms in order to gain experience of what will be a major task of internal administration.

Proposals

7. I have discussed these matters with the Chancellor of the Exchequer, and we are both agreed that it would be wrong to seek to move, in one step, to a fully-fledged merit or performance pay system. Not only would the cost be high and the return uncertain but a great deal of preparatory work would be needed both to chose the most appropriate methods and to set up the necessary administrative machinery. Moreover, once launched, a full-scale system would be hard to abandon. Our joint view therefore is that, if we are to move at all, we should do so by relatively small-scale experiments which would enable us to test systems and come to a subjective view on effectiveness.

8. If colleagues agree that we should now enter into experiments the Chancellor and I are both agreed that there should be an explicit time limit of, say, three years after

CONFIDENTIAL

which we would review the position and decide whether to press ahead with more permanent arrangements or abandon the idea altogether.

9. A decision to proceed by means of time limited experiments simplifies the choice of method as between the flexible use of pay scales and the systems of annual (or biennial) bonuses. Only the latter can be readily withdrawn and we recommend that the initial experiments should be confined to bonus systems and that the award of bonuses to individuals should be on a confidential basis.

10. The need to minimise cost also bears decisively on the populations of civil servants we can accommodate within the bonus experiment. We are both agreed that a credible bonus system cannot be achieved by spending less than one per cent of the pay bill of those to whom the bonuses are available (so that for example 25 per cent of the staff concerned could receive a bonus of four per cent of pay). The choice of the populations to be covered is more difficult. We are both agreed that the experiments ought to embrace at least the total populations of the civil service grades from Principal (and equivalents) to Grade 3 (Under Secretary). Together these grades comprise some 20,000 staff - about three per cent of the non-industrial civil service.

CONFIDENTIAL

11. Our reasons for this judgment are first that the task although substantial is more manageable and the results more readily assessed at these levels; second that these are the key grades on whom we rely to carry through our plans to modernise and improve the performance of the civil service; and third because we shall need to demonstrate to the public that the incentives and disciplines of performance-related pay apply at senior levels. The Chancellor of the Exchequer is prepared to agree that a gross amount of £4 million per annum (equivalent to about one per cent of the relevant pay bill) might be expended on an agreed programme of merit bonuses for these staff.

12. The Chancellor and I are not fully agreed about whether experiments at the higher levels should be matched by other experiments lower down the hierarchy. The Chancellor does not challenge the usefulness of such experiments - which might enable a variety of bonus techniques to be tested - but is concerned over financing. The problem is that if, as the Chancellor would prefer, the finance available for experiments at all levels were limited to £4 million per annum in total we would be forced either:

- a. to confine the initial scheme to the senior group and make it clear that we are postponing the introduction of experiments below Principal level at least for the time being;

CONFIDENTIAL

b. to cut back the coverage of the experiments in the Principal to Grade 3 (Under Secretary) groups, eg by omitting the Principals (around 14,000 with equivalents) with the funds released being expended on experiments at lower levels.

13. My view is that either course would restrict the experiments in unacceptable ways. If we confine the experiments solely to senior grades we open ourselves to the charge of favouring the better paid few at the expense of the lower paid many - and staff reaction could well be adverse. If on the other hand we cut back the senior grades experiment by omitting the Principals in order to release small (and possibly inadequate) sums to finance experiments lower down, we forego the opportunity of providing some relief for the very real management problems we face at Principal level. As colleagues know, we have quite deliberately loaded more responsibility on Principals and their equivalents; their promotion prospects have been reduced; there is difficulty in finding or recruiting adequate numbers of competent people to the grade; and some of the best of them are leaving the service. My personal view is that bonuses alone will not solve these problems; but they might help at the margins, and I would be reluctant to forego that possibility.

CONFIDENTIAL

Finance

14. In short, the issues here turn on finance. Can we afford to go ahead at all? If so can we get a credible package for £4 million? And if we need to spend more, how much further can we go and how can we find the money? The Chancellor and I are agreed that, if at all possible, we should make an early start on these experiments. The Chancellor feels however that the present public expenditure position does not justify our committing ourselves further now than the £4 million to be expended at the higher grades; he is prepared for discussions to open with the unions about the possible extension of the experiments down the line in due course but without any specific commitment whether and when more money might be expended. For the reasons set out in paragraph 12 above, however, I do not think this is an acceptable way to proceed; nor would the alternative of cutting back on the coverage at the higher grades be satisfactory. If we are to tackle the job at all I believe that we need to enter into discussions with the unions about the lower grades with the knowledge that some money can be found. I suggest a limit, subject of course to specific authorisation in each case, of up to £6 million for this purpose.

15. The Chancellor is also concerned, rightly, that the basis on which experiments are financed (as opposed to authorised) should be clear at the outset. His view is that the cost of the merit bonus experiments, within the agreed ceilings, should be taken into account in the funding of the general Civil

Service pay settlements for 1985-86 and later years.

Departments would thus be expected in the first place to find the cost of merit bonuses, along with the cost of the general Civil Service pay settlement over and above the provision made for planning purposes, from their own resources; and only very exceptionally to bid for additional, money. I on the other hand can see considerable merit in setting aside specific extra sums of money for experiments not least because 'new' money will greatly ease the task of ensuring staff acceptance of the proposals. But in present circumstances, and given our recent decisions on public expenditure, the Chancellor thinks that it would be wrong to allow specific additions to programmes on this score. He considers, in any event, that any such proposals should be considered in the Public Expenditure Survey alongside other additional bids by colleagues.

Recommendations

16. In the light of the foregoing considerations my recommendations to colleagues are -

- i. that we should decide now whether or not we want to introduce an experimental programme of confidential merit bonuses for selected groups of non-industrial civil servants starting - probably on a phased basis - on 1 April 1985; limited to three years in each case; and on the express understanding that there is no present commitment to continuing with merit or performance-related arrangements when the experiments have run their course.
- ii. if we favour experiments, to decide whether we want them to cover -

CONFIDENTIAL

a. civil servants from Grade 3 (Under Secretary) to Principal and equivalent grades only at a maximum annual gross cost of £4 million;

b. civil servants at Under Secretary to Assistant Secretary levels (Grades 3, 4 and 5) plus selected groups at lower levels at an annual maximum gross cost of £4 million.

or
c. this group plus selected groups at lower levels at a maximum annual gross cost of (£10) million;

iii. to consider whether the experiments should be funded in the same way as the general Civil Service pay settlements for the years in question on the lines set out in paragraph 14; or whether they should be funded by specific additions to existing programmes;

iv. to instruct officials of the Cabinet Office (MPO) and the Treasury, in consultation with Departments, to prepare detailed proposals in the light of our decision for consideration by the Ministers concerned;

v. to instruct officials to prepare a draft announcement of our broad intentions for use at a date to be determined;

vi. once the announcement has been made, to authorise

CONFIDENTIAL

CONFIDENTIAL

officials to enter into discussion with the relevant civil service trade unions with a view to obtaining their acquiescence, if not consent, to the detailed arrangements; and, if our decision is not to extend the initial experiments below Principal level, to begin a without commitment exploration with them of the possible modalities of such future extension for the initial experiment;

vii. if we decide not to extend the initial experiment below Principal level, to authorise officials to explore with the unions, on a non-committal basis, the possibility of extending performance-related pay down the line.

viii. to instruct the Head of the Home Civil Service to arrange for the effectiveness of the schemes to be audited so that the Cabinet can, in due course, consider whether to introduce definitive schemes of performance-related, or merit, pay and, if so, what form these schemes should take.

Cabinet Office (Management and Personnel Office)

July 1984

CONFIDENTIAL

Civil Service : pay & pensions Pt 14



Ref. A084/1905

PRIME MINISTER

Cabinet: Industrial Affairs
Non-industrial Civil Service Pay Negotiations 1984

Following this afternoon's meeting of the Ministerial Group on Civil Service Pay Negotiations (MISC 66) the Chancellor of the Exchequer will wish to tell the Cabinet of the steps he proposes to take which were set out in his letter to the Secretary of State for Defence of 2 July.

FLAG A

RA

ROBERT ARMSTRONG

4 July 1984

conqueror

CONFIDENTIAL

NBPM
AT 3/7

MR BARCLAY

3 July 1984

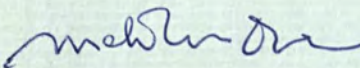
PUBLIC SERVICE PENSIONS

On Thursday E(PSP) meets to consider the Minister of State's paper.

The officials have made extremely heavy weather of this whole question. Cabinet agreed objectives on 15 September. It has taken 9 months for officials to produce an interim report which tells us that it is tricky.

It is right to recommend Option D, acting on all four schemes with the aim of making savings. However, the only thing that matters is how this policy can be implemented against the background of some unrest on public sector pay and the need for union acquiescence. E(PSP) should spend its time discussing how the policy is going to be explained and sold to those in employment who have contracts based on indexed pensions.

This would give better guidance to officials, and could shorten the time to implementation. The Committee should be prepared to set a timetable for action, not just commission another paper.


M JOHN REDWOOD

CONFIDENTIAL

SECRET



Pune Minister (2) *A. 24*
This will be discussed at MISC 66 on Wednesday and reported to Cabinet on Thursday. To Chancellor's proposed line.

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

AT
2/7

2 July 1984

The Rt Hon Michael Heseltine MP
Secretary of State for Defence

John Michael

Armed

NON-INDUSTRIAL CIVIL SERVICE PAY NEGOTIATIONS 1984

The Civil Service unions have carried out the consultation referred to in my minute to the Prime Minister of 6 June. They advised rejection of the offer and claim a 5 or 6 to 1 endorsement of this. This is scarcely surprising in view of the terms in which the question was put. I enclose at Annex 1 an example of the campaign literature.

We now need to decide our next steps. It could be argued that we should make some further marginal improvement in the offer in the hope of making it more acceptable to staff generally. But my own view is that we should stand by what is already on the table. The unions and staff were told at the time the offer was made that it represented the limit of what could be afforded. If we increase it, we shall lose credibility and would give the wrong signals for the teachers' arbitration and to the other public service groups who have yet to settle. In any case, we should need more than a marginal improvement to avoid a request for arbitration.

We have already agreed that we will refuse arbitration on grounds of policy - the need to restrain public expenditure. This is consistent with our decisions on the Review Body Reports and with the stand taken by the Secretary of State for Education and Science in the teachers' arbitration. It is also consistent with the Megaw view that arbitration should only be available at the request of both parties. Nevertheless the unions will no doubt attack us for a breach of the present arbitration agreement.

If we go down this road, I think we should move quickly. Time is not on our side and in any case staff will wish to get their pay increases (including back pay to April) without



unnecessary further delay. We need to start the process of implementing the new rates by 20 July if as many people as possible are to get their increases by the end of August. But we should not move precipitately. This will be the first time that a pay award has been imposed on the Civil Service in this way. It will be a serious step and needs careful handling to minimise damage to our relationships with the unions both generally and on the longer-term pay talks. I therefore believe we should give the unions an opportunity to make representations at Ministerial level if they so wish. A possible timetable is at Annex 2.

I do not expect imposition of the settlement to lead to widespread industrial action in the Civil Service. But there are likely to be pockets of trouble, mainly in areas where there are already matters of local dispute, and there might well be a call by the unions for a token one-day strike. There are no signs, however, that either unions or staff are ready for any sustained action.

I shall therefore recommend at our meeting on 4 July that:-

- (a) we do not make any improved offer. =
- (b) we refuse arbitration on grounds of cost. =
- (c) we should be ready to see the unions at Ministerial level if necessary and =
- (d) we should move to impose the current offer not later than 20 July.

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

A handwritten signature in dark ink, appearing to read 'Nigel Lawson'.

NIGEL LAWSON

eg DHSS at
Newcastle

s'b.

3

The Claim

A general increase of 7 per cent or £7, whichever is the greater, based on the independent OME evidence.

The Offer

The Treasury's latest pay offer is:

£3 per week for the low paid aged 18 and over;

4 per cent on scales;

5 per cent on the maximum and flat rates;

Plus other minor improvements.

They say the offer is worth 4½ per cent overall. For the fourth year running this would mean a cut in the value of your pay.

The Future

If we accept this offer we will jeopardise any settled pay system based on outside evidence. Civil servants will continue to fall behind.

Your negotiators are opposed to the offer. We believe further progress can be made in negotiations. If there is not a satisfactory negotiated settlement, the government must go to arbitration. Your union will be consulting you and recommending rejection.

SAY NO

HOW DOES THE OFFER COMPARE?

The Office of Manpower Economics survey of private sector white collar workers was jointly commissioned by the Treasury and the unions. It shows that:

- Only one in ten received increases of 4 per cent or less
- Two thirds received increases above 5 per cent
- The average increase was 6 per cent
- One third received increases of 7 per cent or more.

The offer fails to match outside increases.

WHAT ABOUT INFLATION?

Since 1980 the real value of pay has fallen by 15 per cent. This year inflation is running at 5.2 per cent.

So, even for this year, the offer fails to match the rise in the cost of living.

WHAT ABOUT LOW PAY?

The offer gives no real help to the low paid. Less than one in five of those on salaries below £100 per week would benefit from the £3 minimum. And their increase will still be far less than the rise in the cost of living.

WHAT ABOUT OTHER PUBLIC SECTOR WORKERS?

Other public sector workers are holding out for more than 4.5 per cent. **Postal workers** have rejected an offer of 4.9 per cent on basic rates. **The teachers** have rejected 4.5 per cent, as have **college lecturers**. The **Nurses Pay Review Body** is reported to have recommended increases of 6 to 8 per cent.

WHAT NEXT?

The Government has declared there is no more money available. Yet only last month the Prime Minister boasted in the House of Commons that staff reductions in the Civil Service have cut over £750 million from this year's pay bill – amounting to 17 per cent of the total.

The money is there.

Our claim can be met.

Have your say through your union

1984 PAY NEGOTIATION

Outline timetable

Wednesday 4 July

MISC 66 meeting

Thursday 5 July

Possible oral report to Cabinet

Monday 9 July

Officials tell unions of decision that the offer cannot be improved, that Ministers would not agree to arbitration if requested, and that intention is to implement the offer. Message sent to staff.

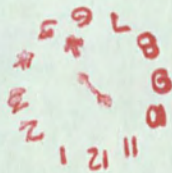
9 July - 19 July

Period available for representation by unions, receipt and formal rejection of arbitration request, Ministers' meeting with unions etc.

By 20 July

Formal decision to implement offer. Further message to staff.

CIVIL SERVICE - Pay.



2 JUL 1984



DEPARTMENT OF HEALTH AND SOCIAL SECURITY
 Alexander Fleming House, Elephant & Castle, London SE1 6BY
 Telephone 01-407 5522

From the Secretary of State for Social Services

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

CCNO
 NBPM
 AT
 27/2

June 27 1984

Nigel

CIVIL SERVICE INDUSTRIAL GRADES: 1984 PAY NEGOTIATIONS

You wrote to Michael Heseltine on 21 June about the handling of these negotiations. I am quite content with your strategy, but I would like, with some hesitation, to ask whether you might be able to give me some help on timing.

Negotiations with the NHS Ancillaries are due to begin on 2 July within the new negotiating limit recently agreed by E(PSP). Our negotiators have a very difficult hand to play and your officials are in touch with ours on tactics. An offer of 4½ per cent to civil service industrials immediately before the negotiations recommence would make the atmosphere much more difficult and could substantially reduce our room for manoeuvre.

It would therefore be of considerable help to us if you could delay your offer until after 2 July, either by not putting a figure on the table on 28 June or by postponing the meeting until next week. I have no wish to suggest a course which might lead to industrial unrest in the defence establishments as a result of delaying too long. But I understand that contacts between officials indicate that what I have suggested might be manageable.

After 2 July our respective tactics will probably depend on the position reached with the non-industrial Civil Service and in the ancillaries' negotiations. Our officials will obviously need to remain in close touch but I accept that you must be in a position to settle with the industrials as soon as the non-industrials are settled.

I am copying this letter to the recipients of yours.

Yours ever,

Norman Fowler

NORMAN FOWLER

Civil Service pt 14

pay



CC 100

NB: 28/2

MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

TELEPHONE 01-218 9000
DIRECT DIALLING 01-218 2111/3

MO 20/17/6

26th June 1984

De Nigel

CIVIL SERVICE INDUSTRIAL GRADES: 1984 PAY NEGOTIATIONS

Thank you for your letter of 21st June. As you say, it does not seem worthwhile at this stage trying to achieve a lower limit of settlement for industrials than for non-industrials. I therefore agree that negotiations should begin within the limits set by our current offer for thenon-industrials.

I confirm that I will absorb the additional cost of a settlement at this level within existing cash provisions.

I am copying this letter to the Prime Minister, other members of E(PSP) and Sir Robert Armstrong.

Yours ever

Michael Heseltine

The Rt Hon Nigel Lawson MP

Curl service PT 14

lay

MANAGEMENT IN CONFIDENCE



HOUSE OF LORDS,
SW1A 0PW

21 June 1984

*nb pm
JMB
55 11/22/84*

CNO

My dear Grey;

CIVIL SERVICE - RETIREMENT AND RE-EMPLOYMENT POLICY

Thank you for sending me a copy of your letter of 1st May to Nigel Lawson.

My Department, like most others, withdrew the option enabling staff to take their lump sum at age 60 without actual retirement. There has been no complaint about this, probably because the staff thought that there was no doubt about the legality of the change and because they assumed that it had been applied evenly throughout the civil service.

I see no merit in reverting to the old practice and agree that an amendment to the Principal Civil Service Pension Scheme is the safest way of putting an end to the uncertainty. I appreciate the difficulty so far as prison officers are concerned. There may be others, but I think it better to make them exceptions to the general rule than to leave things as they are.

I am copying this letter to the recipients of yours.

yrs:

The Rt. Hon. the Earl of Gowrie

CIVIL SERVICE
Pay + Pensions
PE 14

22 JUN 1984



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

21 June 1984

The Rt. Hon. Michael Heseltine MP
Secretary of State for Defence

Stan Michael

CIVIL SERVICE INDUSTRIAL GRADES: 1984 PAY NEGOTIATIONS

As you will be aware, we received a pay claim from the industrial unions on 9 April. Their pay review date is 1 July. We now need to decide how to handle the negotiations.

Although the claim was unrealistically high, there are signs that the unions will settle for the same figure as the non-industrials, though they have said very plainly that they will not accept less. This, as you know, has been the pattern each year since we gave up pay research and I do not think it will be easy to break it until we have some different way of dealing with industrials' pay. If we tried to enforce a lower settlement on the industrial unions, it would be bound to cause strong resistance and I doubt if it would be worthwhile provoking a confrontation with them in the hope of getting some small reduction in the settlement.

If you and other colleagues agree, I will therefore authorise officials to begin negotiations with the unions on 28 June within the limit set by our current offer for the non-industrials. This should enable us to make progress towards agreement on the structure of a final deal, even though the industrial unions are unlikely to settle before the non-industrials do. An offer at this level should cause no difficulty for negotiations with any other public service group.

I should be grateful if you and Patrick Jenkin, as the other employer of significant numbers of industrials, could confirm that you will absorb the additional cost of a settlement at this level within your existing cash provisions. I assume other departments will find no difficulty in doing so since they employ much smaller numbers of industrial staff.

I am copying this letter to the Prime Minister, other members of E(PSP) and Sir Robert Armstrong.

NIGEL LAWSON

John
Nigel

WTA



Y SWYDDFA GYMREIG
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-233 3000 (Switsfwrdd)
01-233 6106 (Llinell Union)

WELSH OFFICE
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-233 3000 (Switchboard)
01-233 6106 (Direct Line)

Oddi wrth Ysgrifennydd Gwladol Cymru The Rt Hon Nicholas Edwards MP

From The Secretary of State for Wales

19 June 1984

*nbpm
DmsB
19/6*

[Handwritten signature]

CIVIL SERVICE RETIREMENT AND RE-EMPLOYMENT POLICY

You copied to me your letter of 1 May to Nigel Lawson, seeking views on the possibility of amending the Principal Civil Service Pension Scheme to put beyond doubt the withdrawal of the concession enabling staff to retire formally, receive their superannuation benefits and then be re-employed immediately in the same grade.

Whilst I am in agreement with the proposal, in view of the fact that the Buckwell v the Post Office case is going to appeal, I would prefer to keep things as they are until such time as the judgement of the Court of Appeal is known.

Admittedly this line of action carries a risk of challenge but, bearing in mind that so far a large proportion of the Civil Service has accepted the new arrangements, I feel it is a risk we must accept for the time being.

I am copying this letter to recipients of yours.

[Handwritten signature]

Lord Gowrie
Minister of State
Management & Personnel Office
Great George Street
LONDON
SW1P 3AL

CIVIL SERVICE - Ray RUF

1961
JUN 9





COPY 1

Prime Minister⁽²⁾

23

To be aware

AT 15/6

PRIME MINISTER

NON-INDUSTRIAL CIVIL SERVICE PAY NEGOTIATIONS FOR 1984

I have seen Nigel Lawson's minute to you of 6 June. I agree with the approach he recommends. Colleagues should be aware, however, that significant industrial action cannot be ruled out entirely. As you know, we already have a dispute over shifts at the pensions computers at Newcastle and I am writing separately to E(PSP) on the handling of that. A combination of disputes over both pay and shifts must increase the chances of escalation and further industrial action. Even if limited to the computer centres, the impact could be serious. Perhaps the major threat is a delay in implementing the uprating.

This does not mean we should soften our stance - quite the reverse - but colleagues should be aware that we may face difficult problems along the way.

I am copying this minute of members of MISC 66, Sir Keith Joseph and to Sir Robert Armstrong.

N F

15 June 1984



16543
01121

15 JUN 1984

COMMERCIAL



Foreign and Commonwealth Office

London SW1A 2AH

14 June 1984

From the Secretary of State

nbpm
DMS
14/6

Civil Service - Retirement and Re-Employment Policy

WJH:DB

Thank you for sending me a copy of your letter of 1 May to Nigel Lawson. I am sure that the decision to withdraw the facility for formal retirement with lump sum payment at 60 with immediate re-employment in the same grade was right. It is clearly better to try to bring in youngsters rather than seek to retain older staff after 60 at a time when unemployment is high. In practice it presents no problem for us since the Diplomatic Service has for many years strictly observed a policy of full retirement at 60, and the rare cases where senior officers have been re-employed beyond 60 have usually been at Ministerial request. Faced with the difficulties which you now describe, I am inclined to agree that we should now move to amend the Principal Civil Service Pension Scheme (PCSPS) to put the validity of the new policy beyond doubt.

However, as you are probably aware, the MPO left it to Janet Young to rule after her move here whether the new policy should be applied to members of the Diplomatic Service who, through service prior to 1972 in certain overseas territories, have earned a 'notional' retiring

/age

The Rt Hon The Lord Gowrie



age of below 60. She decided that it should not. It seemed to us that the new policy was not aimed at staff in this rather special category which is declining in numbers. Furthermore, it would not be effective since most staff concerned, faced with a choice between final retirement or staying on, would opt to stay on. We must ensure that any amendments which are made to the Principal Civil Service Pension Scheme do not inadvertently go against Janet Young's decision, which has only recently been confirmed to our Trade Unions.

I am copying this letter to the Prime Minister, to all Ministers in charge of Departments and to Sir Robert Armstrong.

GEOFFREY HOWE

A handwritten signature in dark ink, appearing to be 'G. Howe', written in a cursive style.



Secretary of State for Trade and Industry

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET

Telephone (Direct dialling) 01-215 5422
GTN 215
(Switchboard) 215 7877

13 June 1984

cc 1/10
Neppin
Dug
14/6

Lord Gowrie
Cabinet Office
(Management and Personnel Office)
Great George Street
London SW1P 3AL

D. Gray,

CIVIL SERVICE - RETIREMENT AND RE-EMPLOYMENT POLICY

I owe you a response to your letter of 1 May to the Chancellor of the Exchequer.

2 I am strongly of the view that it is offensive to allow Civil Servants to retire formally at 60, receive their lump sum and be re-employed immediately in the same grade. I wish to see this facility withdrawn in a way which is proper and can be made effective. Where withdrawal would cause a staffing problem, I believe that the right area in which to look for a solution is recruitment. It is better to consider if necessary special arrangements as to recruiting than to continue this device for delaying retirements.

3 I agree with you that the best course is to amend the PCSPS.

4 My Department is one of those which has not so far withdrawn the facility. It is applied by custom to quite a number of staff in lower grades, and for managerial reasons in the Insolvency Service. I should like to end this practice, but our legal advisers have taken the view that custom and practice over many years have conferred on the staff a legal entitlement both to lump sums at age 60, even if immediately re-employed, and to be re-employed to the age which has become customary for the various grades.

5 The Counsel's opinion obtained by your Department confirmed the risk of successful legal challenge were we to withdraw the option by administrative action. The Post Office judgement has increased the likelihood of such a challenge being made. I therefore support the conclusion that we should act to give management the ability beyond doubt to withhold payment of lump sum until final retirement

JH1AIV



from the Civil Service, and establish this as the normal and proper practice.

6 The experience of this Department, particularly as regards the Insolvency Service, shows areas, like the Prison Service mentioned by Leon Brittan, where to remove this may lead to inconvenience. But if there are problems of manning, they should be properly identified and we should not have recourse to methods which are unacceptable in principle - and conceal an underlying problem.

7 I am copying this letter to the recipients of yours.

A handwritten signature in black ink, appearing to read 'Norman Tebbit', with a stylized flourish above the name.

NORMAN TEBBIT

CS : Pay + Pensum : P₁₄



CND

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

MANAGEMENT - IN CONFIDENCE

The Rt Hon the Earl of Gowrie
Minister of State
Management and Personnel Office
Great George Street
LONDON SW1P 3AL

*nbpm
sent
12/6*

11 June 1984

Dear Gray,

CIVIL SERVICE - RETIREMENT AND RE-EMPLOYMENT POLICY

Thank you for copying to me your letter of 1 May to Nigel Lawson.

I agree that we should not retreat from the position we have now reached. Our Policy of withdrawing by administrative action the lump sum arrangement until actual retirement has worked well in practice. Although you are no doubt right to say that there may be a risk of challenge if we simply stay where we are, there are also risks in your proposed option of moving to amend the PCSPS.

I am told that the legal position is by no means clear. Certainly my legal advisers urge that we should carefully consider the position in consultation with the Law Officers before we reach a decision to amend the PCSPS, in view of the possibility that such a step could have implications for the determination of normal retiring age for the purpose of the employment protection legislation.

Apart from that general consideration, I have to take account of the position of the Scottish Prison Service. As in England, we have continued the practice of enabling officers in that Service who reach the minimum retiring age of 55 to retire formally, receive their lump sum and continue without a break to age 60. If we change that we shall certainly run into protests from the Scottish Prison Officers' Association who have already strongly represented that prison officers should continue to be able to enjoy the existing arrangement and who have deployed similar arguments to those referred to by Leon Brittan in his letter of 29 May. Like Leon Brittan, I would urge that, however achieved, prison officers - on both sides of the border - should be left in their present position on this matter.

I am copying this letter to the recipients of yours.

*Yours
George*

Civil Service
Pay No. 14

1984
10/1

10/1



2 JUN 1984



010
cc ce 150
Prime Minister (2)
To note

AT 8/6

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

PRIME MINISTER

NON-INDUSTRIAL CIVIL SERVICE PAY NEGOTIATIONS FOR 1984

As you know, my officials duly made an "open" offer to the Civil Service unions last Thursday on the basis we had agreed. The details are set out in the attached note. My officials made it clear that the offer represented the limit of what the Government could afford and that we were very unlikely to agree to arbitration (although no request for this has yet been made).

2. The unions are consulting their members on this offer with a recommendation that it should be rejected. They are asking for a mandate to demand more money and have suggested that if none is forthcoming, they will press the Government to agree to arbitration. The consultation process should take about 3 weeks. None of this is unexpected.

3. We cannot impose the offer until this process is complete and there has been a further exchange. But it seems unlikely that the position will change. I expect that towards the end of this month we shall need to reject formally the request for arbitration which will doubtless have been put to us and then impose the present offer. Meanwhile we shall continue to make clear in press briefing and in response to PQs that no more money is available.

4. At present there seems to be little risk of serious industrial action following a decision to impose the offer. But I shall keep colleagues in touch with developments.

5. I am copying this minute to the other members of MISC 66, to the Secretary of State for Education and Science and to Sir Robert Armstrong.

N.L.

(N.L.)

6 June 1984



Library of Congress
of the

11 12 1
2 3 4 5 6 7 8 9 10
L O G

11 12 1
2 3 4 5 6 7 8 9 10

REVISED "OPEN" PAY OFFER 31 MAY 1984

The offer comprises :-

- an increase of 5 per cent for staff on flat rates and scale maxima;
- an increase of 4 per cent for staff on other scale points;
- an underpinning minimum increase of £3 per week for full time staff aged 18 and over;
- an increase of 4 per cent in various pay-related allowances;
- an increase of 4 per cent in rates of London Weighting;
- completion of the rationalisation of scale points at Clerical Officer and Executive Officer levels begun in 1983.

2. The increases in pay rates and in allowances would operate from 1 April 1984. The London Weighting increase would be effective from 1 October 1984 and scale rationalisation at Clerical Officer and Executive Officer levels from 1 January 1985. Overall the increased offer would add about $4\frac{1}{2}$ per cent to the 1984-85 pay bill (precisely the figure is just under 4.55 per cent).

3. This offer follows a union claim for about 7.7 per cent (17 April) and Treasury offer of 3.1 per cent (24 April) and 3.7 per cent (8 May).



MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

TELEPHONE 01-218 9000
DIRECT DIALLING 01-218 2111/3

MO 20/17/6

31st May 1984

*nbpm
DMS
1/6*

See copy

CIVIL SERVICE - RETIREMENT AND RE-EMPLOYMENT POLICY

Thank you for sending me a copy of your letter to Nigel Lawson of ^{1st} 29th May. My Department is among the two-thirds of the Civil Service which withdrew the option of taking the lump sum at age sixty in the circumstances you describe and so we are at considerable risk of challenge in the courts as an awareness of the legal position spreads, as it will in the light of the decision in the case of Buckwell v Post Office.

I can see no merit in reverting (or being required by the courts to revert) to the original practice which Janet Young sought to change, and so I would support your preferred option of amendment of the Principal Civil Service Pension Scheme. The question of departmental discretion to make exceptions will have to be tackled, but it is unlikely to cause any major difficulties for the MOD.

I am copying this letter to the Prime Minister, to Ministers in charge of Departments and to Sir Robert Armstrong.

Yes
see

Michael Heseltine

Call
service
Ray Kelly



- 1 MIN
1964
APR 17



amb
30/5

CC NO

QUEEN ANNE'S GATE LONDON SW1H 9AT

29 May 1984

Dear Lord Gowrie,

CIVIL SERVICE RETIREMENT AND RE-EMPLOYMENT POLICY

You copied to me your letter of 1 May to Nigel Lawson, seeking views on the possibility of amending the Principal Civil Service Pension Scheme, to put beyond doubt the withdrawal of the concession which enables staff to retire formally, receive their superannuation benefits, and be re-employed immediately in the same grade.

As a general rule, I agree that it is clearly wrong to encourage staff to stay on beyond the minimum retirement age when unemployment is at its present level. But I have grave reservations about your proposal because of its possible effect on the Prison Service - as you indicate, prison officers are among the groups who are still able to retire formally and are immediately re-employed. Indeed apart from certain related staff in prison establishments, the prison officer class is now the only group in my department to enjoy this concession. But I am satisfied that there are good grounds for retaining it.

The formal retirement age for prison officers is 55 and not 60. A number of officers continue in service beyond the minimum retirement age of 55, at the same time receiving their lump sum. The prison department would face considerable problems if officers (usually the most senior and most experienced) were required to leave at 55, rather than continue in service until 60: there is, as you know, considerable pressure on the service, and I would wish to retain an arrangement which encourages those who are fit and efficient to stay. There is another aspect to this problem. Many prison officers currently occupy official quarters. Receiving a lump sum enables those who have not done so previously to arrange for house purchase for themselves and their families before retirement. A lump sum awarded to them at age 55 while they continue to draw their salaries is a great help in this situation. Not to have a lump sum until 60 and then to move immediately from salary to pension is a very different matter and they would find themselves in a much more difficult position in the housing market.

The great majority of prison officers are in the basic grade so that re-employment in a lower grade is not possible for them. Nor would it be possible to ensure a genuine break in service between formal retirement and re-employment; such a solution would create considerable problems.

/Last year

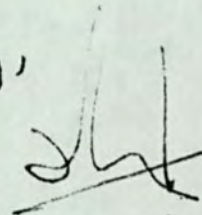
Lord Gowrie

Last year a requirement for members of the prison officer class to retire at 60 was introduced, giving rise to considerable ill feeling. The Prison Officers' Association are aware of the proposals to change the policy and are hostile; it features in the resolutions to the current national POA conference. The proposal could result in industrial action which would merely add to all the other problems with which the prison system is confronted at the present time.

I should therefore prefer to keep things as they are for the present. I recognise the dangers, but I think they can be exaggerated. So far there has been no challenge to the unilateral withdrawal of the concession over a very large area of the Civil Service last year. The decision in Buckwell v the Post Office may alter this, but the implications of that case are not clear. If the present position is unacceptable, I would wish to see the prison officer class exempted from any revised arrangements introduced into the PCSPS. This might be done by providing that superannuation benefits could not be paid before final retirement to staff with a formal retirement age of 60; this would not apply to staff (like prison officers) who have a formal retirement age below 60.

Copies of this letter go to recipients of your letter.

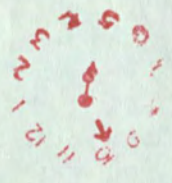
Yours sincerely,



(W.A. Partridge)

Approved by the Secretary of State
and signed in his absence

CIVIL SERVICE & Pay : PMU



30 MAY 1953

SECRET



Caxton House Tothill Street London SW1H 9NF

Telephone Direct Line 01-213.....6400

Switchboard 01-213 3000

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Great George Street
LONDON SW1

nbpm
DWS
29/5
cc NO.
~~18~~ 21

Prime Minister (1)

The Chancellor has now persuaded Mr King that the Government must stick to 4.5% rather than 4.6%.

Agree 25 May 1984
with Chancellor?
DWS
29/5

Dear Nigel,

CIVIL SERVICE PAY NEGOTIATIONS

You minuted the Prime Minister on ^{with AT?} 23 May with your proposals.

I agree that a public offer should be made next week and certainly agree that we cannot contemplate an offer near the level at which all the unions would now be able to recommend acceptance. The offer made will need to be our final offer on which we stand firm and which we will probably need finally to impose. This being so, I would see advantage if it could be presented as, say 4.6% (with no more than the marginal improvements you already contemplate) rather than 4.5%. I think this could have a useful psychological impact at relatively little additional cost and would do something to defuse accusations from public service unions generally that we were determined to impose a single arbitrary figure across the board. I would not see this as undermining the negotiating position for other groups.

As for arbitration, I agree that the unions will need to be told when the formal offer is made that we cannot agree to arbitration. They may then of course seek a meeting with Ministers and we have already discussed how such a request would be handled. Alternatively however, they may see advantage in simply formally submitting their claim to me for reference to the Civil Service Arbitration Tribunal. If they do this, we will need to consider how we would respond tactically, the options being either for me to make an equally formal reply (which almost certainly would result in a subsequent request for a meeting with Ministers) or to offer a meeting at the outset.

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

2
→
la

SECRET

Civil Service: Pay Pt 14

1974

1975

1976

1977

1978

1979

1980

1981

1982

1983

1984

1985

1986

1987

1988

1989

1990

1991

1992

1993



SECRET

MISC 66

289

File



cc:

Ch/Ex
Min/State (Tsy) 20
S/S Defence
S/S Social Services
S/S Employment
Min/State (PCO)

10 DOWNING STREET

From the Private Secretary

25 May 1984

The Prime Minister has seen the Chancellor's minute of 23 May about the Civil Service pay negotiations. Subject to the views of colleagues, she agrees that we should adopt option (b) in paragraph 3 of the Chancellor's minute.

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

Timothy Flesher

Miss Judith Simpson,
H.M. Treasury.

SECRET

NR.



19

MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

TELEPHONE 01-218 9000
DIRECT DIALLING 01-218 2111/3

MO 20/17/6

24th May 1984

*See Nigel*1984 PAY NEGOTIATIONS FOR NON-INDUSTRIAL CIVIL SERVANTS

In your minute to the Prime Minister of 23rd May, you suggested that we should make a public offer to the Civil Service Unions in the week beginning 28th May at 4.5%, making it clear that we were not prepared to go to arbitration. I agree with this approach. Any other would be inconsistent with the decisions we have taken on the Review Bodies' reports, which should be helpful in making the Civil Service Unions believe that the offer which has been made to them is reasonable in current circumstances.

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

yes

Michael Heseltine

The Rt Hon Nigel Lawson MP



10 DOWNING STREET

ON TEXT TO PM 23/5

Prime Minister

You did not manage to discuss this at the Chancellor's bilateral.

Subject to views of colleagues, are you content with option 3 (b)?

AT

24/5



CC/ATO 18
 Prime Minister ②
 Chancellor is likely to raise this at the bilateral. His conclusions look sound.
 AT
 23/5

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

PRIME MINISTER

Yes me

CIVIL SERVICE PAY NEGOTIATIONS

My officials made the agreed "without prejudice" offer on Monday.

2. Since then I am told that there have been further, very informal, discussions. It is quite clear that the General Secretaries are in a dilemma. On the one hand, they say our offer is lower than anything they could conscientiously recommend for acceptance. On the other, they recognise it would commend itself to a great many of their members who accept that we are unlikely to increase our total offer beyond 4.5 per cent, who will be among the two-thirds of staff due to receive 5 per cent and who will be attracted by the underpinning for the lower paid. The union leaders therefore face the choice of acquiescing in our offer or opposing it, and thereby putting their status and reputation very much at risk.

3. A substantial group (including the left-wing SCPS) would apparently be prepared to recommend acceptance if we moved just a little. But two of the bigger unions (including the CPSA with its new Executive) say they cannot recommend acceptance at anything less than, say, 6 per cent overall. We thus have three options:-

a. To buy everyone in at, say, 6 per cent. This must be out of the question.

b. To stand on our informal position of around 4.5 per cent. This would still enable us to make some marginal improvements at the cost of staging the London Weighting increase and the EO/CO alignment.



c. To make a further marginal improvement to, say, 4.6 or 4.7 per cent. This might just conceivably bring in the more moderate (in this context) unions and thus cause a useful split in the CCSU.

4. My own view is that we should stand firm, along the lines of option (b). Any settlement greater than 4.5 per cent would add further to public expenditure and would be bound to have repercussions on the teachers' negotiations. Moreover, it is not as if a move to 4.6 per cent or 4.7 per cent would be likely to lead to a settlement: the unions will still seek to go to arbitration and we will simply end up imposing 4.7 per cent instead of 4.5 per cent.

5. The decisions we have taken on the Review Bodies' Reports are, of course, helpful. They will demonstrate firmly that cost is an important consideration and thus buttress the arguments which the Secretary of State for Employment will have to use in rejecting a request for arbitration on grounds of "national policy".

6. Those decisions also ease the timing constraints under which we have been operating. Indeed there could be advantage in letting the Civil Service unions hear the Review Body outcome before they themselves take a final decision on our offer. But we nevertheless need to make an open offer soon. I therefore propose that we should make a public offer next week at 4.5 per cent, broadly as we floated it on Monday. We should also make it clear that we are not prepared to concede arbitration.

7. Copies of this minute go to the other members of MISC 66 and to Sir Robert Armstrong.

A handwritten signature in blue ink, appearing to be 'N.L.' with a flourish.

(N.L.)

23 May 1984



COMMUNICATIONS SECTION

SECRET



17

MASTER.
cc Civil Service: Pay and Pensions : Pt 14.

10 DOWNING STREET

From the Private Secretary

SIR ROBERT ARMSTRONG

CIVIL SERVICE PAY NEGOTIATIONS
REVIEW BODY REPORTS

The Prime Minister held a meeting today to discuss the next stage in pay negotiations for non-industrial Civil Servants and the Government's response to the recommendations of the Review Bodies. Present were the Lord Chancellor, the Chancellor of the Exchequer, the Secretaries of State for Defence, Employment and Social Services, Lord Gowrie, Minister of State, Treasury, Mr Gregson and Mr Kemp (first item only).

The Chancellor had proposed, in his minute of 17 May an early offer of the Civil Service Unions worth around 4½ per cent, incorporating 5 per cent for the two-thirds of the Civil Service on flat rates or maxima, 3½ per cent for those still on increments, with a minimum £3 per week underpinning. It was agreed that such an offer should be made with the aim of achieving an early negotiated settlement.

In discussion, it was thought possible that this offer might be accepted, though the Unions might wish to push up the 3½ per cent being offered to those still on increments. There was some scope, though extremely limited, for accommodating this within the 4½ per cent total. It was important not to undermine the negotiations with the teachers by exceeding this figure.

The Secretary of State for Employment, in his letter to the Chancellor of 21 May, said it was important to clarify the Government's attitude to arbitration. If there were any prospect of arbitration it would be inadvisable for the Government to improve its offer, even informally. Under the existing agreement the Civil Service Unions had unilateral access to arbitration unless the Secretary of State for Employment declared that this should not happen as a matter of public policy. Summing up this part of the discussion, the Prime Minister said Mr Kemp should warn the Unions, at his informal meeting, that it was most unlikely that the Government would accede to a request for arbitration. If the Unions refused the pay offer, it would then be for the Secretary of State for Employment to declare this formally. The Chancellor of the Exchequer should report the outcome of Mr Kemp's negotiations to colleagues.

Discussion then turned to the recommendations of the Review Bodies. The Prime Minister felt that, with the exception of the

/nurses

SECRET

CST.

nurses and professions allied to medicine, the recommendations of the Review Bodies should be scaled down by one means or another to bring the value of the awards closer to that being offered in other important public sector settlements. Your note of 18 May set out ways in which this could be done - by deferring implementation, by staging or by extending the period of the settlement, or by some combination of these.

In discussion, it was noted that extending the period of the settlement, while not producing any cost savings in the current year, would reduce the cost in the following year and would push the settlements concerned to a later position in the pay round. To extend by three months to 1 July would, however, leave very little time to complete all the processes of consideration, including Parliamentary override if required, before the Recess. The settlements could become entangled with early claims for the following pay round. There would also be complications in the relationship with other non-Review Body groups in the same sectors whose settlements remained at 1 April.

The meeting then considered the recommendations on nurses and professions allied to medicine. In discussion, it was argued that there was a case for accepting this in full particularly as this was the first year these groups had come within the Review Body system. The Secretary of State for Social Services said he had agreed with the Treasury a basis for financing this award (together with that for doctors and dentists). £54 million could be found from within existing provision for the NHS (equivalent to about $\frac{1}{2}$ per cent of NHS resources). This would involve the first ever cut in total NHS manpower. As indicated in paragraph 13 of your note, there were also significant efficiency savings to be achieved. This would require successful implementation of the management changes recommended in the Griffiths Report. Acceptance of these would be helped by making a full award to the nurses.

Summing up this part of the discussion, the Prime Minister said the recommendations on nurses should be accepted in full without staging or extension of the period of settlement. £54 million should be found from existing NHS provision, the rest from the contingency reserve, though the Chancellor of the Exchequer and the Secretary of State for Social Services should consider whether part of this should be financed by an increase in the NHS stamp.

The discussion then turned to the remaining pay groups where it was agreed that the cost of the award should be scaled down to around $4\frac{1}{2}$ per cent. One possibility was to defer implementation until August. A similar effect could be achieved by paying 3 per cent from 1 April with the balance from 1 November. While both these approaches would reduce the value of the awards in 1984-85 they would create a higher base, and hence higher public expenditure, in 1985-86. This could be offset by extending the period of the settlement by two or three months. After some discussion, it was agreed that the recommendations of the AFPRB, DDRB and TSRB should be staged by allowing 3 per cent from 1 April and the balance from 1 November, but without any extension of the period of settlement. It was also agreed that,

/since the

since the steps were relatively small by historical standards, there should be no departure from the presumption that pensions were related to salaries actually payable and not to deemed salaries. To concede this would run the risk of reopening the decisions taken following previous Review Body settlements.

Summing up, the Prime Minister said these proposals should be put to Cabinet on 7 June for approval with the intention that they should be announced to Parliament that day or the next. She invited you to prepare a paper for Cabinet, to which would be annexed a draft of the announcement.

I am copying this minute to Richard Stoate (Lord Chancellor's Office), David Peretz (Chancellor of the Exchequer's Office), Richard Mottram (Ministry of Defence), David Normington (Department of Employment), Steve Godber (Department of Health and Social Security), Michael Corcoran (Minister of State's Office, Treasury), and Mary Brown (Lord Gowrie's Office). It should be shown only to those officials who need to know of its contents in order to assist the Cabinet Office in preparing the paper.

Andrew Turnbull

21 May 1984



10 DOWNING STREET

From the Private Secretary

Prime Minister

Colleagues, including Mr Heseltine, are content with the Chancellor's proposals for the next offer to the Civil Service unions. Mr King - see attached letter - has however suggested it would be a mistake to move nearer the union position if there is any chance of arbitration.

This point can be dealt with quite speedily so I have made the following arrangements

- (i) Mr King's letter to be dealt with at the start of the Review Body meeting
- (ii) Ministers of State, Treasury and Mr Kemp to attend for this item.

Are you content?

A Turner

Yes, and

21/5

LENO



16

Caxton House Tothill Street London SW1H 9NF

Telephone Direct Line 01-213.....6400

Switchboard 01-213 3000

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Great George Street
LONDON SW1

21 May 1984

*Nigel,***1984 PAY NEGOTIATION FOR NON-INDUSTRIAL CIVIL SERVANTS**

In your minute to the Prime Minister of 17 May you sought comments on your proposals for an informal meeting with the unions today. I nevertheless very much hope that there will be the opportunity for a brief discussion at our meeting later today.

I agree that there is advantage in an early informal exchange with the unions, particularly as some of the General Secretaries have asked for a meeting. I am also content with the way in which you propose that an offer within a total cost of 4½% should be structured. Tactically there is advantage in offering 5% to the majority of civil servants, reflecting the OME findings, and in making a limited response to the strength of feeling exhibited at union conferences on low pay. Such an offer would make use of incremental progression and would not, in my view, distort salary structures.

The key point then is what is our position if they reject the informal offer. If as you say, it may then leak, we need to be clearer about the next step. I do not see how we could contemplate agreeing to arbitration and we need to decide how and when we make this clear to the unions. If arbitration were an option, it would clearly be a grave mistake to offer 4½%, however informally.

I would welcome a discussion.

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

lan



10 DOWNING STREET

From the Private Secretary

Prime Minister

- (i) On civil service pay agree amount, structure and timing of offer, as suggested by Chancellor?
- (ii) On whether this is settled in correspondence or at the Review Bodies meeting, I suggest I monitor Ministerial responses on Monday morning and deal a decision with you before lunch. We will need to know whether Mr Heselgrave withdraws his objections to the structure of the offer in the light of the arguments put forward by the Chancellor and Lord Cromie.

AT
18/5

15

SECRET

PRIME MINISTER

18 May 1984

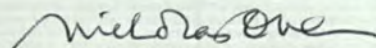
1984 PAY NEGOTIATIONS FOR NON-INDUSTRIAL CIVIL SERVANTS

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

DASAAAY

SECRET

SECRET

14

①

PRIME MINISTER

18 May 1984

THE PAY ROUND SO FAR

This is the difficult part of the pay round where the obstinate cases emerge and wait upon, among other things, the outcome of the Review Bodies' reports. The round has gone well so far. Private sector settlements have averaged 5.5% - 0.25% lower than at the same point in the last round. Public sector settlements have averaged 5%.

We have now to decide how best to handle the remainder of the round in a way which minimises its cost and political damage, with an eye, too, on any implications it may have for the next and subsequent rounds. The major outstanding negotiations are set out below, together with the major deals which have been already settled.

MAJOR NEGOTIATIONS OUTSTANDING

	<u>Numbers</u>	<u>Latest Offer on Rates</u>
		%
Civil Servants	520,000	3.7
Teachers (E&W)	440,000	4.5
Miners	190,000	5.2
Railwaymen	180,000	4.3
NHS ancillaries	170,000	3.0
Post Office workers	150,000	4.0
British Telecom workers	130,000	3.6-4.4
University, non-teachers	50,000	3.0
University teachers	36,000	3.0
Water Manuals	28,000	4.9

SECRET

MAJOR DEALS SETTLED

	<u>NUMBERS</u>	<u>INCREASE</u>
		%
Local Authority Manuals	95,000	4.5
Police	140,000	8.4
FE Teachers	86,000	4.5
Electricity Manuals	77,000	5.2
Scottish Teachers	56,000	4.5
Gas Manuals	41,000	4.6
British Airways (2 yrs)	36,000	4 and 5
Firemen	35,000	7.8
BBC	30,000	5.0

Looking at these negotiations as a whole, an encouraging point is that, with the exception of the miners, whose offer has become entangled with the closures issue, no public sector negotiation has become bogged down at a level higher than 4.5% (the teachers). There is therefore still some headroom within which to clear the public sector settlements at or below the rate of inflation (5.2% to April 1984). In most of the negotiations it seems likely that a satisfactory settlement will materialise. The water workers clearly do not want a fight and will probably accept the 4.9% offer. The civil servants naturally hope for 5% - the lowest figure in the range of private sector settlements identified in the Office of Manpower Economics' exercise designed to inform the negotiations. Our judgement is that

SECRET

- 3 -

they will settle for 4.65% if the structure of the offer is judged rightly, and we think that it is. University teachers are waiting to see what teachers achieve but are not looking for trouble. The Post Office and British Telecom's employees may prove more difficult. They may take encouragement from the eventual rail and water settlements to settle nearer 5% than 4.5%.

The two problematic settlements are with the railwaymen and the teachers. There is a real prospect that BR have repackaged their productivity conditions in a way which will bring the railwaymen across. The teachers, then, are the problem group in this pay round, apart, of course, from the miners, but they lack the latter's muscle, and will not find much encouragement from settlements of comparable groups (Scottish teachers and civil servants).

Looking Beyond This Pay Round

The Government is reaching a critical stage in its relationships with its employees. It will be increasingly argued, with some justification, that the Government treats many of its employees unreasonably, both in relation to privileged groups (those in uniform and others covered by review bodies) and in relation to the private sector. The teachers, in particular, have drawn attention to the extent to which they are falling behind; so too are the civil servants. These groups have rumbled the fact that they,

SECRET

E. R.

SECRET

- 4 -

almost alone in the economy, are not benefiting from economic growth. Although public sector settlements are not much lower than private sector settlements, earnings drift is considerably higher in the latter. In the year ending February 1984 the increase in earnings were as follows:

Central Government	5.75%
Local Government	5.50%
Total Public Services	5.75%
Public Corporations	7.25%
Total Public Sector	6.25%
Total Private Sector	8.50%
Economy	7.75%

Those employed in the private sector achieved a 3% real increase in earnings; those in the public sector received hardly any at all. This has been the pattern for the last three years. It has been successfully concealed up to now but the facts are now being smoked out and will inform the preparations made during the Summer by public sector groups for the next and subsequent rounds.

The Government's defence of its position has been that it had no difficulty in recruiting and retaining staff without paying real increases in earnings. Private sector employers have not had any difficulty either. 80-90% of them report no such difficulty but they have still felt it appropriate to pay earnings increases of 8.5% (9.5% in

SECRET

SECRET

- 5 -

manufacturing) for reasons of morale or motivation. Most of this has been underwritten by productivity gains but many public employees see it differently. To them, the Government is beginning to look like the only major employer that actually believes in market forces.

The additional cost of matching private sector pay increases (let alone providing for any catching up, if that were desired) is significant. The public sector pay bill next year is expected to be around £40 billion. The additional, real cost of a 3% increase in public sector earnings, (less a 1% offset for declining manpower) would be £0.8 billion, each year.

If we wish to hold public expenditure in real terms and avoid alienating substantial sections of the electorate entirely (there are on average around 1,000 civil servants in every constituency) there needs to be a way of allowing public sector employees to share in economic growth, without real increases in unit costs.

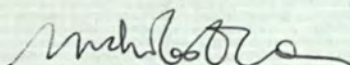
Private industry can only afford these real increases by improving productivity. The public sector will just have to do the same. It is not doing so at the moment. For example, Civil Service numbers are expected to fall by only 6% in the next four years. Transfers to the private sector account for half these reductions. Genuine reductions are expected to be less than 1% a year. Even assuming (at

SECRET

worst) that the Civil Service continues to perform all its present functions, its productivity growth is likely to be less than 1%, compared to the private sector average of 2-3%. An approach would be:

1) To introduce merit pay in the public sector, and make it produce productivity gains in line with the private sector's. We therefore need a manpower policy and a merit pay system which are mutually reinforcing. Separate notes being prepared on these subjects.

2) Reformulate the pay factor. The pay factor has served us well but is becoming an embarrassment, if played too long in negotiations. We could not realistically reduce it next year, to say 2.5%. To increase it would appear to be abandoning our objectives on public expenditure and inflation. The pay factor says nothing about productivity. It might be better to go for a limit on operating costs. Within this constraint, wage costs might be allowed to increase at the expense of non-wage costs eg accommodation, travel, allowances of various kinds. This would provide a way of harnessing the energies of public sector employees to greater economies.


NICHOLAS OWEN



File
13

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

18 May 1984

Nigel Lawson

1984 PAY NEGOTIATIONS FOR NON-INDUSTRIAL CIVIL SERVANTS

with AT

I am writing to support the proposals for the next steps in the Civil Service pay negotiations which you put forward in your minute of 17 May to the Prime Minister. A quick settlement at 4½ per cent would be a considerable prize and your suggestion that we should offer 3 per cent to some two-thirds of the staff, with 3½ per cent for the rest and subject to an underpinning £3 minimum seems to me well designed to capture the interests of both staff and unions. The offer can also be represented as being broadly compatible with the Megaw recommendations and the findings of the OME report and thus supportive of our separate negotiations with the unions about a long-term pay settlement.

I also support your desire to bring these negotiations to a speedy conclusion if that should prove possible. A 4½ per cent settlement for a major group now would be a considerable prize with beneficial knock-on effects. The course of the pay negotiations for teachers in England and Wales is also instructive and underlines the importance of seizing opportunities when they occur.

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

L. J. M.

LORD GOWRIE

COMM SERVICE : pay MY

21 MAR 1984





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

PRIME MINISTER

1984 PAY NEGOTIATION FOR NON-INDUSTRIAL CIVIL SERVANTS

As expected, the Civil Service unions rejected our increased offer of 3.7 per cent. We now need to consider how and when we bring these negotiations to a conclusion.

2. On structure, I continue to think we should aim for a settlement on the lines described in paragraph 4 of my minute to you of 2 May. For the agreed 4.5 per cent total, this would provide the two-thirds of civil servants on flat rates or maxima with an increase of 5 per cent, those still on increments would receive 3.5 per cent and adults would get a £3 per week underpinning. With the majority of staff receiving 5 per cent, we would be able to keep Megaw in play and the minimal underpinning would respond to union demands for special help for the low paid.

3. On timing, given the likely developments on pay elsewhere, I would favour moving fairly swiftly. Some union General Secretaries have told my officials informally that they too would welcome an initiative from us early next week. If colleagues agree, I therefore propose to authorise officials to sound the unions tentatively and without prejudice on a possible offer on the lines set out in paragraph 2. Although the offer would be made in confidence, it would probably leak but this should do no damage. We could then decide how to bring the negotiations to a close in the light of the unions' reactions.

4. I should have welcomed the opportunity to talk over our tactics in detail with colleagues, at the meeting of MISC 66 scheduled for Monday. However, given the mood of this week's Conferences, I think there would be great advantage in presenting a revised offer to the unions on Monday afternoon. We cannot bring the meeting of MISC 66 forward, as I should otherwise have wanted to try to do, since I have to leave



for an OECD Ministerial Council in Paris this afternoon. I should therefore be most grateful to have comments on my proposals by midday on Monday. If you or other colleagues had any serious reservations, we might, subject to your agreement, discuss them briefly at your meeting at 3pm on Monday afternoon, to which I believe all the members of MISC 66 have been invited.

5. Copies of this minute go to the other members of MISC 66 and to Sir Robert Armstrong.

N.L.

17 May 1984



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

15 May 1984

Lord Gowrie
Minister of State
Management and Personnel Office
Great George Street
LONDON SW1P 3AL

John Gower

CF
BF // *had Gowrie will now put forward a revised draft.*

Dub
17/5

PERFORMANCE RELATED PAY

You wrote to me on 8 May enclosing a draft Cabinet paper which proposes the introduction of Performance Related Pay, on an experimental basis, in the Civil Service.

I am broadly content with the thrust of the paper, and am particularly glad that you support the idea of performance related bonuses for staff from Under Secretary to Principal levels (as well as lower down). As you know, I am strongly in favour of bonuses (as opposed to performance scales) both on financial and management grounds.

However, I find the arguments for introducing a new "intermediate" class of Permanent Secretaries unconvincing and I doubt whether it will find much support among colleagues. I would therefore suggest that you drop the references to job weighting from your paper, particularly as here we are not really concerned with merit pay at all.

I also have a few small points on the text. First, two different dates are suggested for the introduction of the scheme - in paragraphs 13 and 21(1). I think the paragraph 13 timing is more realistic. Second, paragraph 21(4) discusses the introduction of performance bonuses for grades up to and including Senior Executive Officers from 1 April 1985, while paragraph 19 seeks no more than a decision in principle that at these levels performance bonuses would be appropriate. I believe it is paragraph 19 which strikes the right note; we cannot be committed at this stage to pressing on below Principal level from 1 April 1985. Third, I think the wording towards the end of paragraph 8 should be changed to make it absolutely clear that the bonuses, or "increments", awarded for merit would be paid for only one year at a time.

Finally, there is the question of timing. I think we should ensure that we have settled the current difficult pay negotiations with the non-industrial Civil Service before we make any announcement about merit pay. We also need to watch the timing in relation to announcements on the Review Body Reports.

A copy of this letter goes to the Prime Minister.

John Gower *Nigel Lawson*

NIGEL LAWSON

Civil Service P174

Pay & Pensions



76 FINE 1984



10 DOWNING STREET

From the Private Secretary

9 May, 1984

Civil Service - Retirement and Reemployment
Policy

The Prime Minister has seen a copy of Lord Gowrie's letter of 1 May to the Chancellor of the Exchequer on the above subject.

The Prime Minister would be grateful to be consulted again once responses have been received from colleagues, and before a final decision is taken. I am sending a copy of this letter to Richard Hatfield (Cabinet Office) but not to the other recipients of Lord Gowrie's letter.

DAVID BARCLAY

Paul Cann, Esq.,
Lord Gowrie's Office
MANAGEMENT IN CONFIDENCE

SSS



CABINET OFFICE

c. No
Asst Chancellor

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

8 May 1984

Dear Nigel,

PERFORMANCE-RELATED PAY

Officials have now produced a revised draft Cabinet Paper reflecting the comments made in our earlier discussion, ... and I attach the result herewith.

While the draft sets out as alternatives pay ranges and performance bonuses at Under Secretary to Principal level, it recommends in favour of performance bonuses at these levels, as was envisaged at our earlier meeting. I have, however, left the merit pay range alternative in, since there are those (including, I understand, Sir Robin Ibbs) who think that it would be on balance the better alternative at these levels.

I am copying this letter and enclosure to the Prime Minister.

*Lawson,
 t/g*

LORD GOWRIE

DRAFT

CABINET

LINKING PAY AND PERFORMANCE

Memorandum by the Minister of State, Privy Council Office

Ever since we took office in 1979 we have accepted in principle the desirability of introducing some form of performance-related pay to the Civil Service. We invited the inquiry into Civil Service pay (the Megaw Committee) to make recommendations on this subject and they did so in the summer of 1982. Since then we have committed ourselves on various occasions and in various documents to considering ways of making progress. But we have done nothing so far, partly because of uncertainty and differences of opinion about the best system of merit pay for the Civil Service. This paper proposes an experimental and evolutionary approach which will enable us to gather practical experience on which to build for the future.

2. We are engaged upon a profound change in the style and professionalism of management in central Government, with much greater emphasis on value for money and on the dispersion outwards and downwards of financial responsibility and a sense of that responsibility. We have already taken a number of important steps, including the Financial

Management Initiative (FMI) and the introduction of a programme of reform of personnel work. We need to support this programme of change by encouraging good performance and by improving motivation in the Civil Service to accept this change of style and make it effective. This implies a system of rewards for especially good performance and penalties for unsatisfactory performance. I am looking separately at the disciplines and penalties for poor performance. This paper is concerned with rewards..

3. Hitherto the main incentive to good performance in the Civil Service has been the prospect of promotion to a higher grade. With the sharp diminution of promotion opportunities, which is the inevitable consequence of our reductions in the size of the Service, particularly at the higher grades, this no longer provides a sufficient incentive. About two-thirds of the Civil Service are now paid at the maximum of their pay-scales and have no current possibility of improving personal rewards other than through the general annual pay increases. This strengthens the case for the introduction of some form of performance-related pay system.

4. The Megaw Report envisaged a three-pronged approach comprising:

- a. performance-related pay ranges in place of rates or scales for staff at Grade 3 (Under Secretary) down to Principal level;

b. a closer matching of pay to the job weight of individual posts at Permanent and Deputy Secretary levels;

c. performance bonuses for non-industrial staff at Senior Executive Officer (SEO) and below.

5. Performance-related pay should, if it is to be introduced at all, be available in one form or another at all levels in the Civil Service. It will not be possible to introduce a fully-fledged comprehensive scheme in short order. We have to proceed by stages; and we should concentrate initially on the highest levels of the Civil Service, both in order to demonstrate that the incentives and disciplines of performance-related pay apply at these, as well as at lower, levels, and in order to motivate the senior managers on whom the speed of the drive for efficiency especially depends. As Megaw recognised, there would be difficulty in introducing a merit scheme at Grade 1 (Permanent Secretary) or Grade 2 (Deputy Secretary) level without involving Ministers directly in setting the pay of individual officials; something I take it we should want in principle to avoid. Hence I propose, following Megaw, to start at Grade 3 (Under Secretary) level. But we should consider the Megaw proposal for job weighting at higher levels.

6. For those in the rank of SEO and below the Chancellor of the Exchequer and I agree that in principle the system to be adopted is one of annual performance bonuses. But we cannot introduce such a scheme at once, nor should we now endorse it save in the most general terms, first because we shall need to discuss it with the Civil Service trade unions, and second because the cost could be considerable; 1 per cent of the pay bill (and most concerns seem to devote about this amount to performance-related pay) is about £45 million per annum for the non-industrial Civil Service. Before making any promises the Treasury would want to examine how this could be funded and in particular how the gross cost could be reduced, eg through holding back on the general pay increase.

7. But we could more quickly introduce performance-related pay at higher levels (Under Secretary to Principal) where the cost is clearly less and discussions with unions might be easier. There are two possible approaches at these levels. We could adopt a system of annual (or half-yearly) bonuses; or we could adopt a system of performance-related pay ranges, as recommended by Megaw.

8. The arguments in favour of a merit pay range scheme would be:

- a. that is what Megaw recommended, and what is widely used at comparable levels in private sector

industry, though there are signs that some concerns using scales are moving over into bonuses or something much more akin to them;

b. it would give us experience of the advantages and disadvantages of such a system in the context of the public service;

c. at these levels, where it would be particularly important to motivate people for sustained good performance, a scheme which provided for continued payment (subject to continued good performance) might be more likely to motivate those concerned in the way we need;

d. it would, once established, be significantly less demanding of senior management time - with the decisions conforming to the principles of management by exception rather than involving a full review of all eligible postholders each year.

Increments payable for merit would be reviewed each year, and it would be clearly understood that they would be reduced or withdrawn if good performance was not sustained. They would be paid as part of the monthly salary payments. They would qualify for pension purposes; but this would not be likely to add significantly to pension costs, since most of those qualifying for merit pay at these levels could be expected to go on to higher levels before retirement.

9. The advantages of a system of annual performance bonuses would be that:

- a. the bonuses would not qualify for pension purposes;
- b. the award of a bonus to an individual in one year would not imply any commitment to the payment of a bonus to that individual the following year; there would be no need to preclude the payment of bonuses for several years running, but they would have to be earned afresh each year;
- c. because they would be payable in a lump sum once (or twice) a year, they would be clearly seen by the recipients as different from regular pay;
- d. the total paid out under a bonus scheme is likely to be more easily controlled than under a scale scheme; more capable of being accurately directed to those whom it is currently wished to reward; and more capable of being directly related to the achievement of defined performance targets under the FMI;
- e. a bonus scheme is more easily stood down than a system of scale increments, which makes it more appropriate for the sort of experiments which we have in mind.

10. In either case it would be necessary to work out criteria for eligibility, and arrangements for deciding who of those eligible should receive merit payments.

We want the system to reinforce the FMI, and one of the criteria is therefore the achievement of the objectives and targets defined in the management systems being developed in the FMI. At these levels, however, objective measures of performance are more difficult - often impossible - to establish, and judgment of merit is mainly subjective. This throws an additional burden on those who have to allocate merit payments, but it also obliges them to practise the exercise of managerial judgment.

11. Having discussed this with the Prime Minister and the Chancellor of the Exchequer, I recommend that we go for a system of performance bonuses at these levels. The proposals for which I seek Cabinet approval are therefore as follows:

PERFORMANCE-RELATED PAY FOR GRADES FROM UNDER SECRETARY TO PRINCIPALS

12. We should institute a system of annual bonus payments (which could if we wished be payable half-yearly), expressed either as a flat rate or as a percentage of salary. Payments would be awardable according to individual performance. Entitlement to merit pay bonuses would be reviewable annually. For Under Secretaries entitlement would be judged by the Head of the Department, in consultation with Deputy Secretaries; for lower grades similar arrangements would be worked out. The number of postholders who could be in receipt of performance-related

pay bonuses or increments would be limited to, say, a maximum of 25 per cent; and the total cost of the merit payments in any grade would also be subject to a limit related to the total salary costs for that grade. The scheme would be limited to the non-industrial Civil Service, and would not extend to fringe bodies.

13. If the Cabinet agrees, officials of the Treasury and the Cabinet Office will be instructed to work out detailed arrangements for a system of performance bonuses at these levels, with a view to an early announcement. The appropriate unions will need to be consulted before an announcement is made. It should be possible to introduce a scheme for Grade 3 (Under Secretaries) from 1 October 1984. It may well be necessary to defer the introduction of the scheme at Assistant Secretary level and below a little later - say, to 1 April 1985 - purely for administrative reasons: for the larger Departments the arrangements for choosing those who are to receive merit payments may at those levels take rather longer to put into place. If that proved to be the case, it would be positively advantageous to make an early start with Under Secretaries: it would provide valuable learning experience for the later extension to the lower grades.

14. The Chancellor of the Exchequer is prepared to agree that a gross amount of £4 million per annum (equivalent to about 1 per cent of the relevant pay bill) might be expended on an agreed programme of merit bonuses payable

in the Under Secretary/Principal (and equivalent) grades; to the extent that any grades are not brought in, or brought in later, this amount would be scaled down as appropriate. He would be content for an agreed merit bonus scheme to run for three years on the explicit understanding that there is no commitment to continue the experiment after that. Each 12 month period from the start of the scheme should be individually cash limited at £4 million at maximum, scaled down as appropriate to the extent that grades are not brought in immediately. So far as any expenditure which falls in 1984-85 goes, Departments should do their best to absorb this; in cases where it is claimed the settlement could not be absorbed or offset within existing cash limits the position would be looked at urgently on merits; any special addition to cash limits in 1984-85 on this account would be charged to the Reserve. For later years the necessary funding will be taken into account in the funding of the Civil Service pay settlement generally.

JOB WEIGHTING FOR GRADES 1 AND 2

15. There are at present three "grades" of Permanent Secretary:

Grade 0	Secretary of the Cabinet)	
	Permanent Secretary to the Treasury)	
	Permanent Under Secretary of State)	£48,000
	Foreign and Commonwealth Office)	
Grade 1	Permanent Secretaries in charge of Departments)	£42,750
Grade 1A	Other (or "Second") Permanent Secretaries)	£39,500

This lumps together all Permanent Secretaries in charge of Departments, whatever the weight of their policy and management responsibilities. There is clearly a large difference between the job weight of (for example) the Permanent Secretary to the Ministry of Defence, with responsibility for the management of more than 200,000 staff, and that of (for example) the Permanent Secretary to the Department of Energy, with about 1,200 staff, and a correspondingly clear case for some difference between the job weighting and remuneration. On the other hand, it is questionable whether we should look for too complicated or sophisticated a set of weightings; apart from everything else, that would be taken to imply a pecking order of Departments which could fetter the Prime Minister's discretion in recommending Ministerial appointments.

16. If the Cabinet decides in principle in favour of job weighting for Permanent Secretaries, I recommend that in this experimental stage we should confine ourselves to two levels at Grade 1, reflecting a broad assessment of differences in

weight of a combination of policy and management responsibilities:

Grade 1(1) Permanent Secretaries to the Ministry of
Defence
Home Office
Scottish Office
Department of
Health and
Social Security

Grade 1(2) Other Permanent Secretaries in charge of
Departments.

The Top Salaries Review Body could be asked to recommend appropriate salary rates, to come into effect from 1 October 1984.

17. At Grade 2 (Deputy Secretary) level, the weight of the load tends to be reflected in the number of posts at the level in the Department: the Ministry of Defence (for example) has 17 Grade 2 posts, while the Department of Energy has only 3. I am not convinced that job weighting of individual posts varies so markedly as to justify differences of remuneration. I recommend that this should be subject to further examination.

PERFORMANCE BONUS SCHEME FOR GRADES UP TO SENIOR EXECUTIVE OFFICER

18. The Megaw Report recommended that at grade levels up to that of SEO a limited number of non-pensionable bonuses should be available each year on evidence of consistently outstanding performance. I recommend that we should now accept this recommendation in principle, as a basis for a Service-wide experiment, and announce that we propose to discuss with the unions the forms which a system of non-pensionable performance bonuses might take, with a view to introducing a scheme or schemes on an experimental basis from 1 April 1985 for three years in the first instance. This will have the advantage of

demonstrating our intention to introduce performance-related pay arrangements right through the Civil Service, not just at higher levels; and will give us the opportunity of discovering whether arrangements can be devised which are reasonably acceptable to the staff (and therefore likely to achieve our objectives) and can be introduced at a reasonable cost in money and administrative resources.

19. Performance bonuses could be expressed as a proportion of salary or as absolute amounts. These amounts, and the numbers of staff eligible to receive them, would depend on how much we were prepared to afford. There would have to be criteria for eligibility, and arrangements for deciding who of those eligible should receive bonuses. All these questions will require further detailed work and discussion with the Civil Service unions. At this stage I seek no more than a decision in principle that at these levels performance bonuses would be appropriate, and that we should discuss such a system with the Civil Service unions with a view to possible introduction on an experimental basis from 1 April 1985 or as soon as possible thereafter, subject to the outcome of discussions that I shall be having with the Chancellor of the Exchequer as to whether money can be found for such an advance and if so how much.

CONCLUSIONS AND RECOMMENDATIONS

20. We need to act now to reinforce the pressure for an improved style and greater professionalism of management in the Civil Service, and for better value for money, by introducing arrangements to link pay to performance.

21. I invite the Cabinet to agree:

(1) to the introduction of a performance-related system for the grades from Under Secretary to Principal inclusive from 1 October 1984;

(2) to decide whether that scheme should be based on a system of performance bonuses or on a system of performance-related pay ranges (paragraphs 12 to 14);

(3) to the introduction of a system of job weighting for Permanent Secretaries in charge of Departments (paragraphs 15 to 17); and

(4) that officials should enter into discussions with the unions with a view to the introduction of a system of performance bonuses for grades up to and including Senior Executive Officers from 1 April 1985 (paragraphs 18 and 19).

22. If the Cabinet decide accordingly, I recommend that the schemes should all be regarded as experimental and as a single package. This will enable us more readily to counter criticisms from the media and elsewhere that, despite the managerial advantages, we are favouring senior civil servants. I further recommend that the Head of the Home Civil Service should be instructed to audit their effectiveness and to report further so that the Cabinet can in due course consider whether to introduce definitive schemes of performance-related pay and, if so, what form these schemes should take.

29 Jul 1984

11 12 - 2 3 4 5
6 7 8 9 10



MINISTER OF STATE, PRIVY COUNCIL OFFICE

PRIME MINISTER

1984 PAY NEGOTIATIONS FOR THE NON-INDUSTRIAL CIVIL SERVICE

I have seen Micheal Heseltine's minute to you of 3 May in which he queries the Chancellor's proposal to give more to those on the maxima of incremental pay scales than to those receiving increments on the grounds that some staff on their maxima will be "settling for a quiet life" while those on the lower rungs of incremental ladders will be "aspirants striving for future promotion". I have also seen your private secretary's letter of 4 May in which you ask the Chancellor to "take account" of Michael's point in structuring the Government's revised pay offer.

Michael's argument is a seductive one which must be true for some people. On the other hand we should not overlook the fact that the pay scales for the clerical and executive officers, and their equivalents, who make up the bulk of our workforce, are short. A clerical or executive officer entering the Service direct from school or university, as most of them do, will have reached the maximum point on their pay scales by the time they are 25 or 26 years old. When the size of the civil service was stable or expanding the best of them could expect promotion to the next grade while they were still in their twenties. But in a contracting service the opportunities for promotion are much diminished. The consequence is that growing numbers of our best younger staffs find themselves on the maximum of their present pay scales with little hope of early advancement. When one considers that, outside London, the maximum gross pay of an executive officer - a grade to which the majority of new entrants nowadays are graduates - is £155 a week, it is clear that, as the economy picks up, we risk a substantial and damaging outflow of experienced staff.

It follows that there is a strong management case for following the Chancellor's advice on the distribution of the proposed new pay offer.

/I am copying



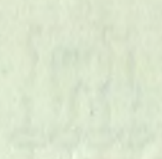
MINISTER OF STATE PRIVY COUNCIL OFFICE

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

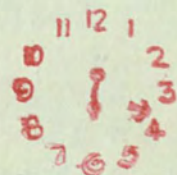
g.g.

LORD GOWRIE
8 May 1984

CONFIDENTIAL



- 8 MAY 1984





E

CC NO. 10

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

8 May 1984

R C Mottram Esq
Private Secretary to the
Secretary of State for Defence

Dear Richard,

PAY NEGOTIATIONS FOR NON-INDUSTRIAL CIVIL SERVICE

The Chancellor has seen your Secretary of State's minute of 3 May and the comments of the Prime Minister and other colleagues in response to his minute of 2 May.

The Chancellor fully accepts that in management terms we should not give smaller financial incentives to those who are making the bigger efforts. But he is not convinced that this is the implication of structuring a final offer on the lines hinted at in paragraph 4 of his own minute to the Prime Minister. He points out that there are people still on incremental ladders who have settled for the quiet life, just as there are people on the maxima of their scales, or on flat rates, who need some kind of incentive and that those still on scales are also receiving increments which are worth on average about 6 per cent. In the Chancellor's view, the best way to give financial incentives to those who are making the bigger effort is likely to be through a merit pay system, and he understands that Lord Gowrie will shortly be bringing forward proposals for a merit pay scheme.

The Chancellor notes that your Secretary of State is content with the offer he has proposed officials should make early this week and suggests that MISC 66 should discuss the shape of the final offer after the union Conferences.

I am copying this letter to Andrew Turnbull (No.10), to the Private Secretaries to the other members of MISC 66 and to Richard Hatfield (Cabinet Office).

*Yours sincerely,
Margaret O'Mara*

MISS M O'MARA
Private Secretary

Civil Service : Pay Pt 14

8 MAY 1984
10 12 10
10 12 10



*File #6
a Nick Owen.*

10 DOWNING STREET

From the Private Secretary

4 May 1984

9

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.



Caxton House Tothill Street London SW1H 9NF

Telephone Direct Line 01-213..... 6400

Switchboard 01-213 3000

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

NDPM
 ST
 8
 415
 6th 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.

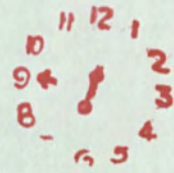
I am copying this letter to the Prime Minister, to the other members of MISC 66 and to Sir Robert Armstrong.

Yours sincerely,

Handwritten signature

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

- 4 MAY 1984





MO 20/17/6

3rd May 1984

PRIME MINISTER1984 PAY NEGOTIATIONS FOR NON-INDUSTRIAL CIVIL SERVANTS

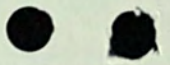
The Chancellor of the Exchequer sent me and other members of MISC 66 a copy of his minute to you of 2nd May. I agree with the negotiating tactics and the improvement in the pay offer that he recommends.

2. On the structure of the final offer, I think that we need to think carefully about giving more to those on the maxima of incremental scales than to those receiving increments. In some cases those on the maxima will be people settling for a quiet life, while those on the lower rungs of incremental ladders will be aspirants striving for future promotion. In management terms we may not want to give smaller financial incentives to those who are making the bigger efforts.

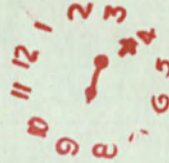
3. I am copying this minute to the other members of MISC 66 and to Sir Robert Armstrong.

Ministry of Defence

3rd May 1984



4 MAY 1984



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

CONFIDENTIAL

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.

CONFIDENTIAL

AND PERSONAL

CONFIDENTIAL

AND PERSONAL

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.

CONFIDENTIAL

AND PERSONAL

CONFIDENTIAL

AND PERSONAL

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

CONFIDENTIAL

AND PERSONAL

CONFIDENTIAL

AND PERSONAL

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

CONFIDENTIAL

AND PERSONAL



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

Prime Minister (1)

1 May 1984

Lord Gowrie proposes to amend the Civil Service Pension Scheme unilaterally to prevent superannuation benefits being paid to re-employed civil servants until they finally retire. This is bound to cause a row, and will need careful handling.

Dear Nigel,

Agree to consider further in the light of colleagues' responses?

CIVIL SERVICE - RETIREMENT AND REEMPLOYMENT POLICY

Until 1 January this year it was possible for civil servants, reaching the minimum retiring age of 60, to retire formally, receive their superannuation benefits and be reemployed immediately in the same grade. Their pensions were totally abated but they were permitted to keep their superannuation lump sums. This practice had evolved over many years mainly as a means of encouraging older staff, or staff with particular specialisms, to stay in work in periods of staff shortage. Departments are of course responsible for deciding the age between 60 and 65 when they will require staff to retire definitively, and in recent years the practice has been progressively to reduce 'real' retirement ages. It is now, for example, fairly common practice to require staff at HEO level and above to leave the service at the minimum retirement age of 60, though some departments allow reemployment of such retired staff in lower grades of the Service. Below HEO level most (not all) are allowed to stay on until 65.

Sub 8/5

My predecessor, Janet Young, took the view that, with high unemployment, it was wrong to continue to encourage staff to stay on beyond the minimum retirement age, particularly by paying them a part of their retirement benefits before they had in any real sense retired. Following lengthy discussions with departments and the trade unions, it was decided last year that, with effect from 1 January 1984, the facility for full retirement at 60 with immediate reemployment in the same grade would be withdrawn. From that date, staff would be faced with a straight choice between retention without any superannuation benefits or final retirement. The unions opposed the change, which had to be introduced administratively.

MANAGEMENT IN CONFIDENCE

Since that decision was taken three things have happened:

- i. the House of Lords judgment in the 'Waite' case has cast doubt on our ability to operate our retirement practices as flexibly as we had done in the past;
- ii. legal advisers in some departments came to the view that, while the central Civil Service conditions of service do not confer an entitlement on individual civil servants to retire formally at 60 and be reemployed in the same grade, the effect of local staff and/or custom and practice in some departments appeared to confer on their staff a legal entitlement to claim the lump sum payment at age 60 even where there is continued employment in the same grade; and
- iii. early this year, a legal judgment affecting Post Office staff overturned an attempt by the Post Office management to withdraw the option of retiring formally for superannuation purposes and continuing in Post Office employment without a break in service. The full judgment on this latter case is not yet available and there may well be an appeal. Nevertheless it could have a direct bearing on our own problem.

When the question of the possible local entitlement to the retention of the old practice in the Civil Service became apparent last year it was agreed that Counsel's opinion should be sought. In effect that opinion confirmed that a problem existed and advised that the only wholly safe solution was to amend the Principal Civil Service Pension Scheme (PCSPS) so as to prevent payment of any part of superannuation benefit before final retirement, and subsequently modifying departmental rules where necessary to bring them into line. I am advised that this can be done without the agreement of the unions, although they have a legal right to be consulted about the amendment to the PCSPS.

This is an unattractive course. It would turn the issue into one of controversy and it would also make it extremely difficult to provide for discretion to make exceptions where the services of particular individuals or groups of staff need to be retained for operational reasons. The examples, most frequently quoted of such groups include Prison Officers, Radio Officers at GCHQ and printing grades in HMSO. There may be ways around the problem - eg by ensuring that there is a genuine break in service between formal retirement and reemployment - but none is really satisfactory.

As matters stand therefore we have a situation in which the new arrangements have been introduced, so far without challenge, for some two-thirds of the Civil Service. Action on the rest

MANAGEMENT IN CONFIDENCE

has been deferred pending clarification of the legal position. Until the Post Office case however it had been hoped that it might be possible to make progress on the residual problem by local downward adjustments in final retirement ages and by judicious changes in departmental staff rules where these were the cause of the problem. It was also envisaged that any necessary amendments to the PCSPS might be deferred so that consultation with the unions about them could be subsumed in wider negotiations for changes in the PCSPS which may flow from the current examination of public service pensions policy.

The Post Office case will inevitably bring the issue to the attention of the unions. SOGAT 82 is known to be seeking legal advice on the general issue and there have been a number of individual queries directed to departments, specifically referring to the case.

In these circumstances we have three courses of action open to us. We can make an early move to amend the PCSPS; we can rest on the present position and accept the risk of challenge; or we can retreat from the present policy in any areas of real doubt (this might involve reversion to the old practice in at least one large department).

My own view is that it is too risky to stay where we are; and I do not wish to retreat. Accordingly, I believe that we should now move to amend the PCSPS to put the validity of the new policy beyond doubt. I know however that this course would raise real difficulties for some colleagues. I would therefore be glad to know how you and other Ministers in charge of departments judge this situation. If there are differences of view we may need to have a collective discussion.

I am copying this letter to the Prime Minister, to all Ministers in charge of departments and to Sir Robert Armstrong. In view of the sensitivity of its contents I think it should be handled on a strict need-to-know basis within departments.

*Yours,
Gowrie*

LORD GOWRIE

MANAGEMENT IN CONFIDENCE

4 MAY 1984



File

089
Jean Cole?

13 April 1984

TRAVELLING EXPENSES OF SPOUSES OF CIVIL SERVANTS

Thank you for your letter of 9 April. The Prime Minister is content that Sir Peter Middleton should write round to Permanent Secretariss in the terms which you enclosed.

S. E. R. BUTLER

D. R. H. Board, Esq.,
Office of the Permanent Secretary
(Sir Peter Middleton KCB),
H.M. Treasury.

WT

SECRET AND PERSONAL



10 DOWNING STREET

From the Private Secretary

13 April, 1984

file SH
cc: MOD 4
DHSS
Emp.
M/S, PCO
M/S, HMT
Mr Kemp (HMT)
CO
Mr Owen

Dear Margaret,

Non-Industrial Civil Service

Pay Negotiations 1984

The Prime Minister has seen the Chancellor's minute of 11 April reporting on the discussion at MISC 66. She has noted and approved the approach which the Committee has developed.

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

*Your sincerely
Andrew*

ANDREW TURNBULL

Miss Margaret O'Mara,
H.M. Treasury

SECRET AND PERSONAL

ECL



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

LCE No. ① 3
Prime Minister
Agree with the approach
formulated by MISC 66?

AT
12/4

PRIME MINISTER

NON-INDUSTRIAL CIVIL SERVICE PAY NEGOTIATIONS 1984

The Ministerial Group on Civil Service Pay (MISC 66) met under my chairmanship on 9 April for a first discussion of the impending negotiations with the trade unions on this year's non-industrial civil service pay settlement. We had before us the report from the Official Group circulated with my letter of 5 April.

2. MISC 66 noted the assessment of the Official Group that there was little chance of an agreed settlement below 5 per cent: this is the lower quartile of the settlements in the report which we commissioned from the Office of Manpower Economics, and so the minimum that we could offer under the system recommended by Megaw. But MISC 66 was clear that this would be too high. In particular, it would make it more difficult to hold the line for other public service groups. MISC 66 agreed that we should aim at an outcome not higher than 4½ per cent. The Official Group will be examining a number of matters, such as increments and the level of pension contributions, which may not have been fully taken into account in the OME report, with a view to strengthening the arguments which we could use to defend a settlement at this level.
3. Since there is little chance of agreement below 5 per cent, there is a case for moving quickly towards an imposed settlement. The chances are that the pay round may move unfavourably in the next month or so: in particular, the impending Review Body reports



may well be unhelpful. A settlement at 4½ per cent would reinforce the line established by the settlement with the local authority manuals and the offer on which the Scottish teachers are balloting.

4. However, MISC 66 agreed that it would be wrong to force the pace in this way. The demonstration effect on other negotiations of an imposed settlement might not be large. Quick imposition would be at odds with the assurances we have given to the trade unions that there will be genuine negotiations. In the aftermath of the GCHQ affair it might look like a policy of determining civil service pay by unilateral dictation.

5. The timing of the negotiations depends on the unions as well as on us. But MISC 66 considered that on present information the right course was to play them long. The unions have not yet formulated a specific claim. We should wait for them to do so before tabling our offer, which should be at around 3 per cent, in line with the pay factor. We should not be quick to move away from this. It will be possible to spend some time exploring the details of the unions' claim; and there may be room to elaborate our own offer so as to provide material for discussion.

6. It is likely that the claim from the unions will include a reduction in working hours. MISC 66 agreed that this should be resisted: the OME Report suggests that fewer than 5 per cent of non-manual employees in the private sector had a reduction in their basic working hours in the period surveyed.

7. The unions are also likely to look for preferential treatment for the low paid. MISC 66 saw little merit in this - market factors point the other way - and any substantial concessions could have unwelcome repercussions on other services. However, they agreed that some modest move to favour the lower paid, within the total cost envelope we eventually agree, need not



be excluded, particularly if it were a necessary condition of securing an agreed settlement (unlikely though an agreed settlement may be).

8. I am sending copies of this minute to the other members of MISC 66 and to Sir Robert Armstrong.

N.L.

N.L.
11 April 1984

Civ Service Pay



COMPTROLLER

1911



H M Treasury

Parliament Street London SW1P 3AG

Switchboard 01-233 3000
Direct Dialling 01-233 3620

Sir Peter Middleton KCB
Permanent Secretary

F E R Butler Esq
10 Downing Street
LONDON
SW1

Prime Minister

Agree that Sir
Peter Middleton may
write round in the
attached terms?

I have released my

Yes

FERB

10.4.

practice with Ministers

and agree it

9 April 1984

should similarly be released
for civil servants.

Dear Butler

MT

TRAVELLING EXPENSES OF SPOUSES OF CIVIL SERVANTS

Following representations from Sir Clive Whitmore last year, Sir Peter Middleton has had some discussions with Sir Clive and one or two other Permanent Secretaries about the need to give Heads of Departments generally some guidance on the question of allowing spouses of senior civil servants to accompany them on official trips abroad at public expense. Hitherto, there has been no such guidance, the assumption being that, if a civil servant takes his or her spouse abroad on an official trip, that would always be a private affair.

The rules on spouses travel within the UK have been a little more relaxed since 1975 when Sir Ian Bancroft ruled that in certain circumstances the travel costs of a spouse could be charged to public funds. In the light of his discussions with Sir Clive Whitmore and other Permanent Secretaries, Sir Peter Middleton has concluded that the distinction between travel within the UK and overseas is not logical, and that there could be circumstances, albeit entirely exceptional, in which it would be acceptable for a spouse to accompany an official on an overseas trip at public expense. He proposes therefore, if the Prime Minister agrees, to write to Heads of Departments as in the enclosed draft. Treasury Ministers have indicated that they have no objection and Sir Peter would be glad to know whether the Prime Minister is content.

As you will see from the draft, Sir Peter proposes to ask Heads of Departments to submit regular returns to him on the use they make of the discretion he is giving them to ensure that it is exercised only in the most exceptional

circumstances. The taxation test described in paragraph 4 of the draft is of course a severe one but Sir Peter nevertheless believes that, if this discretion is to be allowed, it needs to be monitored closely.

Yours sincerely

Douglas Board

D R H BOARD
Private Secretary

DRAFT LETTER FOR SIR PETER MIDDLETON TO SEND TO :

SIR ROBERT ARMSTRONG GCV CVO
CABINET OFFICE
70 WHITEHALL
LONDON SW1A 2AS

TRAVELLING EXPENSES - WIVES OF SENIOR CIVIL SERVANTS

It has been a longstanding rule that the expenses of a spouse who accompanies a civil servant to an official function can be reimbursed from public funds only in the most exceptional circumstances. This rule was introduced and has been upheld on the grounds of propriety. The widespread use of public funds for this purpose would be misunderstood and would attract adverse comment.

2. In his letter of 7 February 1975 to Douglas Wass, a copy of which is enclosed, Ian Bancroft announced a minor easement of this very strict rule, giving Heads of Departments discretion in certain exceptional circumstances to allow the reimbursement of such expenses incurred in travel within the United Kingdom out of public funds.

3. This left the rule in respect of travel outside the United Kingdom unaltered. It has however been recently suggested that the distinction between travel within the United Kingdom and outside the United Kingdom is not logical. There could be rare circumstances where it would be acceptable to charge to public funds expenses of accompanying spouses on

overseas trips. Ministers have accordingly agreed that the rules applying to domestic travel, set out in paragraph 3 of the letter of 7 February 1975, should be extended to embrace overseas travel also.

4. It is impossible to lay down hard and fast rules as to the precise circumstances which warrant the reimbursement of a spouse's expenses. A useful test, however, is whether the Inland Revenue would deem the officer concerned to be liable to tax on the cost of the spouse's trip. I attach a copy of Chapter 9 of Inland Revenue's booklet, "Notes on Expenses Payments and Benefits for Directors and Certain employees". You should never authorise reimbursement of a spouse's expenses unless they satisfied the Revenue's "wholly, exclusively and necessarily in the performance of" test; and not of course always then. This is a necessary but not always sufficient condition.

5. Clearly Heads of Departments will exercise great care and restraint in using this discretion. For both overseas and domestic travel prior approval should always be the rule. The letter of 7 February 1975 talked of reimbursement of domestic travel expenses being restricted normally to spouses of officials of the rank of Assistant Secretary and above although some scope was given in respect of slightly more junior officers. For overseas travel reimbursement of expenses should be restricted normally to spouses of officials of the rank of Permanent Secretary and equivalent, although very exceptionally this could extend downwards to Deputy Secretary and equivalent.

6. Heads of Departments will want to ensure that in cases where they do exercise this discretion the travelling and subsistence costs are kept to the minimum. The journeys should be made in as economical manner as possible although it is accepted that the spouse may travel in the class appropriate to the official. As to subsistence, there will (I hope) be only a handful of cases a year at the most. Rather than pay the appropriate flat rate departments should reimburse the actual expenses of husband and wife for room and breakfast on top of which both might receive an average sum for meals and incidental expenses up to a maximum of one-third each of the appropriate rate of night subsistence allowance. This would apply both to the UK (and therefore supersedes paragraph 4 of Ian Bancroft's letter of 7 February 1975) and to overseas trips.

7. In order to maintain consistency and ensure that there is no "drift", I ask Heads of Departments to let me have a note every year detailing the occasions on which they have exercised discretion; I would ask that this note should also include details of the occasions on which they have exercised discretion in respect of reimbursement of travelling expenses within the United Kingdom. This is a difficult and potentially sensitive area, and it is very important to ensure that it remains very tightly controlled and monitored. Could I ask for the first such note to cover the period up to 30 September this year, and to reach me as soon as convenient after that date.

8. I am copying this letter to all Heads of Departments who will want to keep it with their Personal Handbook. When we

next revise that Handbook the sense of this letter can be
incorporated into the text.

CHAPTER 9—Travelling and subsistence expenses of wives accompanying their husbands on business trips

General

9.1. Where an employer (or another person acting on behalf of the employer) bears the travelling and subsistence expenses of an employee's wife who accompanies her husband on a business trip, the employee is liable to tax on the cost of the trip except so far as the expenses of the wife's journey may be allowed under the ordinary expenses rule as having been incurred "wholly, exclusively and necessarily in the performance of" her husband's duties. Whether such an allowance can be made will depend upon the facts of the particular case.

9.2. An allowance for the wife's expenses might be admissible if she has some practical qualification directly associated with her husband's mission which she uses to assist him regularly during the tour. Alternatively her presence might be essential to act as hostess at a series of business entertaining occasions for overseas customers (see Chapter 20) which are a vital part of the mission. Her expenses might also be allowed where the husband's health is so poor that it would be unreasonable to expect him to travel alone.

9.3. Where, however, the part played by the wife is relatively unimportant (such as giving her husband occasional assistance with clerical duties or making the travel and hotel reservations), or the main reason for her travel is personal, e.g. to avoid the separation from her husband or to visit relatives abroad, her expenses would be regarded as inadmissible.

9.4. In some cases it may be necessary to apportion the total cost of the wife's travelling and subsistence between business expense and private expense. Further, the remarks at paragraph 8.6 above about sums spent by employees for personal reasons apply also to their wives.

Maintenance of records

9.5. Where a claim is made that a wife's expenses are allowable for tax purposes it is important that the claim should be supported by records and the comments in paragraph 8.13 are of particular application. If it is claimed that the reason for the wife's journey was to act as hostess during the business entertaining of overseas customers it should be borne in mind that the Inspector may ask for information about the occasions and the extent of any such entertaining.

Wife's expenses borne by the husband

9.6. Where the wife's expenses are not borne by her husband's employer (or another person acting on behalf of the employer) no deduction for tax purposes under the expenses rule described in paragraph 7.1 can normally be allowed.

3/86/07
1.16
1975



Sir Ian Bancroft KCB
X. P. Bancroft KCB.
Second Permanent Secretary

Civil Service Department
Whitehall London SW1A 2AZ
Telephone 01-839 7733 ext. 1642

7 February 1975

C. M. Clifton + PR

Sir Douglas Wass KCB
Treasury
Parliament Street
London SW1

Dear Douglas,

TRAVELLING EXPENSES: WIVES OF SENIOR CIVIL SERVANTS

It has been a long-standing rule that the expenses of a spouse who accompanies a civil servant to a function in the United Kingdom can be reimbursed from public funds only in the most exceptional circumstances. This rule was introduced and has been upheld primarily on grounds of propriety rather than expense because the use of public funds for this purpose could be misunderstood and possibly attract adverse comment.

2. However, two departments have recently approached us to suggest that we might give discretion to Permanent Heads of Departments to approve in certain circumstances the reimbursement of such expenses. These circumstances would be receptions or dinners to which it is not unusual for the wives of senior members of the Department of Trade and the Department of Industry to be invited or staff dinners of the kind that senior members of the Inland Revenue frequently have to attend accompanied by their wives.

3. In all the circumstances the Lord Privy Seal has agreed that Permanent Heads of Departments should be given discretion to reimburse the travelling expenses of spouses of senior civil servants accompanying their husbands or wives to functions in the United Kingdom which the official concerned is attending in a strictly representational capacity and which the spouse attends as part of the husband/wife's duty to attend. Examples of these functions are receptions and official dinners given by foreign diplomats, trade and industry associations, regional and branch organisations of departmental staff associations and similar functions arranged by the staff themselves. The idea would be to meet the cost, where particular individuals hold posts for which such invitations are relatively frequent and it would be unreasonable to expect the individual to bear the costs; or where visits to the regions are involved and where, again, it would be unreasonable to expect the individual to bear the extra cost.

4. Clearly, great care should be exercised in dealing with such cases and I suggest that discretion should be used sparingly and that reimbursement of expenses should be restricted normally to the spouses of officials of the rank of Assistant Secretary and above, although this is not to suggest that there will not be cases where slightly more junior officers might not have to attend such functions. Travelling

expenses should be reimbursed at the level enjoyed by the husband. If an overnight stay is necessary I suggest that half-rate night subsistence should suffice, although if bed and breakfast charges should exceed this level I should see no objection to the reimbursement of vouched actual expenditure (including service and VAT).

5. I am copying this letter to those on the attached list.

10/1/64

Ian Bancroft

IAN BANCROFT



File

mt

10 DOWNING STREET

Prime Minister ②

You will want to know how
and Service negotiations are
looking. The choice is a
quick settlement at 5 percent
or delaying it long to try
and get 4½ percent. The
Chancellor prefers the latter
as does the Policy Unit.
Other Ministers may also
support this

AT

5/4

Prime Minister ②
To Note AS 5/4

SECRET

2

MR TURNBULL

5 April 1984

CIVIL SERVICE PAY NEGOTIATIONS 1984

Next Monday, MISC 66 will discuss this subject. You may find it useful to know something of the official discussion underlying the paper which will be taken at that meeting.

Treasury negotiators have to find a path between, on the one hand, the 3% pay factor and on the other, the results of the data gathering exercise undertaken as a prelude to Megaw, which reveals that settlements for non-manual, private sector employees over the most recent nine month period lie within an interquartile range of 5-7%, with a median of 6% - double the pay factor. This data is designed to "inform but not constrain" this year's negotiation.

There are two credible options: we prefer the second.

(i) to try for a quick negotiated settlement at, say 5% - a lower quartile figure, before the Review Bodies recommendations are published and in time to catch the Civil Service unions' annual conference;

(ii) to embark on a "slow bicycle race" at the 3% level, aiming to negotiate a settlement at 4.5-4.75% by end-May.

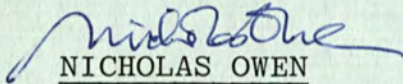
There can, I am sure, be no question of imposing a settlement, unless as a last resort. Such high-handedness would be counter-productive in several ways, particularly after the GCHQ affair. It would mean that the 1985 negotiations would not start from a clean slate and would merely postpone part of the costs.

I expect Ministers to go for Option ii on Monday. Ministers in whose areas settlements have been or are likely to be struck at around 4.5% (Mr Jenkin, Sir Keith Joseph, Mr Fowler) will not want to see the ground cut from under them by an immediate 5% offer. Many civil servants, particularly those out of London, do not expect more than 4.5%. In any case, the tactic of speed is unlikely to be effective; the unions will be anticipating Review Board recommendations of higher than 5% and will want to wait

SECRET

until publication before settling. The Civil Service unions will argue that a 3% opening offer makes a nonsense of the data collection exercise. In what sense does it "inform" the Government's offer? The Government has a sufficient answer to this point - the data is just one factor amongst several. If the unions decide to withdraw from Megaw discussions as a result, I see no disadvantages to the Government whatever.

A Megaw-type negotiation this year would have implied an opening offer of 5 per cent, and a settlement of perhaps around 6 per cent.


NICHOLAS OWEN



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

5 April 1984

The Rt Hon Michael Heseltine MP
Secretary of State for Defence
Ministry of Defence

John Michael

1984 PAY NEGOTIATIONS FOR NON-INDUSTRIAL CIVIL SERVANTS

You will have seen my minute of 16 March to the Prime Minister to which I attached a preliminary assessment by officials of factors which would bear on the 1984 pay negotiations for non-industrial civil servants.

... Officials have now prepared the enclosed further report, analysing possible negotiating options, which we are to discuss at the meeting of MISC 66 arranged for Monday 9 April. My own firm view is that we should aim for an outcome around 4½ per cent.

Copies of this letter go to the Prime Minister, to the other members of MISC 66 and to Sir Robert Armstrong.

YH Gvk
Nigel

NIGEL LAWSON

SECRET

AND PERSONAL

1984 PAY NEGOTIATIONS FOR NON-INDUSTRIAL CIVIL SERVANTS

SECOND REPORT FROM THE CHAIRMAN OF THE OFFICIAL GROUP ON CIVIL SERVICE PAY NEGOTIATIONS

Introduction

The Chancellor of the Exchequer circulated under cover of his minute to the Prime Minister on 16 March a report setting out the background to the forthcoming negotiations on the pay of non-industrial civil servants, with a preliminary assessment of the issues involved.

2. This report looks at the prospects for the negotiations with the Council of Civil Service Unions, and considers possible negotiating options.

The factors

3. The principal factors were discussed in the earlier note; they can now be made more precise, thus:

- (a) Cost. Provision is made in Departments' programmes for an increase of 3 per cent in Civil Service pay and related allowances for 1984-85.
- (b) Recruitment and Retention. Although there are difficulties in some grades, generally speaking recruitment and retention is not currently a real problem in the Civil Service outside London. The position in London is more difficult, but this is best addressed through London Weighting.
- (c) OME Report on pay increases in the private sector. It was agreed last Autumn that as a step towards a longer-term framework for pay negotiations based on the proposals in the Megaw Report, the OME would collect data in connection with the 1984 pay negotiations. It was explicitly agreed that this would inform but not in any way constrain negotiations. The OME's Report has now been received. It finds that the median for non-manual pay settlements in the private sector over the period examined was 6 per cent, with the upper quartile at 7 per cent and the lower quartile at 5 per cent. There is a significant clustering of settlements at 5 per cent: 15 per cent of employees covered received

SECRET

SECRET

AND PERSONAL

less than 5 per cent, while 65 per cent received more. These figures do not vary significantly with size of firm, period covered, or average salary, though the very low paid and the very high paid got a little more. None of this is particularly exceptional or out of line with other surveys.

- (d) Settlements elsewhere. The OME data is confined to the private sector. There have been hardly any settlements to date in the public sector. In the public services, local authority manuals have settled for 4½ per cent. It is possible that Scottish teachers will settle for the same figure. The result of their ballot on an offer of 4½ per cent should be known in mid-April. Other notable public service settlements yet to come include teachers in England and Wales, NHS groups whose pay is negotiated, and those covered by the Review Bodies (Top Salaries, Armed Forces, Doctors and Dentists and Nurses). Offers of 3 per cent are at present on the table for the English and Welsh teachers and the NHS negotiated groups.
- (e) Price movements generally. The RPI is currently increasing at an annual rate of 5.1 per cent, expected to reduce to 4 per cent by Q2 1985. The TPI is currently increasing at an annual rate of 4.2 per cent.
- (f) Long-term pay arrangements. Discussions on long-term pay arrangements derived from the report of the Megaw Inquiry, set up following the 1981 pay dispute, have made little progress to date, and the two sides are still far apart. But the weight given to the private sector settlement data produced by the OME (see 3(c) above) will bear on the chance of keeping these discussions alive. The linch-pin of the Megaw proposals is to relate pay increases for civil servants to the inter quartile range of increases awarded in the private sector in the same pay round. A note on the state of play on Megaw is at Annex A.

Possible Outcome

4. Given these factors, some possible outcomes might be as follows:

- (a) 6 per cent. This is the median figure shown by the OME Report.

SECRET

SECRET

AND PERSONAL

- (b) 5 per cent. This is the lower quartile figure shown by the OME Report.
- (c) 4½ per cent. This is the lowest level at which any public service group has settled to date.
- (d) 3 per cent. This is the pay factor built into public expenditure programmes, and is on offer to teachers in England and Wales, and to the NHS negotiated groups.

Discussion of Options

5. We assume that an outcome at 6 per cent can be ruled out. While the unions will make a strong bid for 6 per cent as the outcome, they cannot realistically expect the Government to offer a settlement at that level. At the other limit, an outcome of 3 per cent looks unrealistic. The OME Report shows only 4 per cent of employees settling at or below this level and there have been no public sector settlements (as opposed to opening offers) at 3 per cent. It is not a figure which the unions would accept, and an attempt to impose it would almost certainly precipitate industrial action.

6. There is a reasonable chance of an agreed settlement at 5 per cent. It would be less than the unions will ask for, but better than staff expectations. If ultimately the unions do not trim their demands, at 5 per cent a refusal of arbitration and a decision to impose should seem reasonable to staff. 5 per cent should also help to keep the talks on the longer term alive, and indeed we should want some assurance of this before floating the possibility of a settlement at this level.

7. 5 per cent for the Civil Service could be defended on the grounds that this was in line with the Megaw approach which applied only to non-industrial civil servants. But in practice it would make it more difficult to hold the line at 4½ per cent for other public service groups, and would be resented by the local authorities and their employees. It would be particularly difficult to offer when only 3 per cent was on the table for certain other public service groups. Although the cash difference between 5 per cent and 4½ per cent is only of the order of £25m, the higher figure would put in jeopardy significantly more departmental cash limits.

8. There seems no attraction in a figure below 5 per cent, but higher than 4½ per cent. Anything below 4½ per cent would be seen as discriminatory in view of the

SECRET

SECRET

AND PERSONAL

settlement at this level for the local authority manuals, and the offer to the Scottish teachers.

9. Even $4\frac{1}{2}$ per cent is very unlikely to be agreed by the unions. It would very probably have to be imposed, and arbitration refused. We doubt if this would be greeted by more than sporadic industrial action; the more likely staff reaction would be weary resignation. But a combination of the refusal of arbitration and an imposed settlement below the lower quartile of private sector settlements (the floor recommended by Megaw) would seriously damage, and might end, the current talks on longer term pay arrangements.

10. On the other hand, there are, as mentioned above, strong arguments in terms of the wider public service pay position for not going above $4\frac{1}{2}$ per cent. This would be below last year's figure for the Civil Service of 4.86 per cent, at a time when inflation is falling. It would also put a little less pressure on departmental cash limits than 5 per cent. These arguments seem overwhelming.

Timing

11. If Ministers were to be prepared to contemplate a settlement at 5 per cent there may be more chance of agreeing this with the unions if it is offered quite quickly. If the Review Body recommendations were higher than 5 per cent (which is quite likely) and were accepted this would make it more difficult subsequently to secure a negotiated settlement at this level in the Civil Service.

12. If Ministers decide to aim for a settlement at say $4\frac{1}{2}$ per cent there is also a question of tactics and timing. We would presumably start at 3 per cent.

13. Moving quickly to a $4\frac{1}{2}$ per cent outcome would help to reinforce the line established by the local authority manuals' settlement and the offer on which Scottish teachers are balloting, and ahead of publication of the Review Body reports. On the other hand an imposed settlement in which the unions had not acquiesced and which they were still fighting would carry less demonstration weight with it. A move to impose $4\frac{1}{2}$ per cent quickly would also be at odds with the assurances which have been given of genuine negotiations and would come very quickly after events at GCHQ.

14. The converse arguments apply to playing the negotiations more slowly. On the one hand to do so would give more reality to the pledge to negotiate. There

SECRET

SECRET

AND PERSONAL

might also be helpful RPI figures as the negotiations proceeded and with passing time pressure could build up on the unions to come to a conclusion so that staff could see the increases in their pay packets. On the other hand, the negotiating climate might worsen as the Review Body reports are published since it is quite likely that they will recommend 5 per cent and more. The unions may also be pushed into more militant positions by their annual conferences in mid May if the negotiations are still unresolved by then. And other public service negotiations might breach the figure of $4\frac{1}{2}$ per cent, making it harder to hold the Civil Service at this level.

15. The timing of the negotiations depends to some extent on union tactics as well. But Ministers will want to decide whether their own preference is to push them to a conclusion quickly or play them long taking account of developments elsewhere.

Other elements in the negotiations

16. While a number of detailed elements will need to be resolved, including for instance the relationship of London Weighting to the settlement as a whole, two are likely to be prominent:

- (a) The low paid. The CCSU will be looking for a settlement angled towards the low paid, and some of the OME evidence suggests that in the private sector the low paid are doing relatively better than the better paid. There is no particular economic or managerial reason for favouring the low paid. But we would like authority to discuss with the unions a modest move to favour the low paid (within the total cost envelope agreed) if, as last year, this will help secure an agreed settlement.

- (b) Hours. The unions are likely to put in a claim for a reduction in the working week of 1 hour in London and 2 hours outside London. We recommend that Ministers reject this. The OME Report is helpful in suggesting that less than 5 per cent of non-manual employees in the private sector experienced a reduction in basic weekly hours over the period surveyed; $\frac{1}{2}$ per cent actually experienced an increase in hours. We see no reason to move on this in these negotiations, though since the union claim was deferred from last year they are

SECRET

SECRET

AND PERSONAL

likely to press hard.

Finance

17. The Treasury's best estimate is that Departments generally ought to be able to absorb a 4 per cent settlement. But there could be variations between Departments and anyway a settlement exceeding 4 per cent is likely. The Treasury propose that departments should do their best to absorb whatever settlement emerges. In cases where departments claim that the settlement could not be absorbed or offset within existing cash limits, the position will be looked at urgently on its merits. Any special addition to cash limits on this account would be charged to the Reserve.

Summary

18. Ministers are invited to:

- (a) note the assessment set out above and the alternative approaches discussed in paragraphs 5 to 15;
- (b) indicate whether they wish to
 - (i) authorise officials now to explore the possibility of a quick agreed settlement at 5 per cent; or, more likely,
 - (ii) aim for an outcome at, say, $4\frac{1}{2}$ per cent;
- (c) if they wish to go for around $4\frac{1}{2}$ per cent, indicate how quickly they would want to proceed;
- (d) indicate whether they would be prepared to accept a concession to the low paid as part of securing an agreed settlement;
- (e) confirm that they would not wish to offer a concession on hours;
- (f) note the proposed financing arrangements; and
- (g) note that further reports will be made.

SECRET

SECRET

AND PERSONAL

ANNEX A

MEGAW: STATE OF PLAY

The Megaw Inquiry was set up in June 1981 to advise on future arrangements for determining the pay of non-industrial civil servants. Its setting up contributed to the resolution of the 1981 Civil Service industrial dispute which followed the Government's suspension of and withdrawal from the pay research agreements. The Inquiry reported in 1982.

2. It recommended that settlements year by year should be constrained by the upper and lower quartiles of pay movements in the private sector in the current pay round. Also, Civil Service pay rates would be expected to lie between the upper and lower quartile of outside pay levels and there would be four-yearly surveys of these. If Civil Service pay levels had moved outside the inter quartile range action would be taken over time to bring them back within these limits. Negotiations each year would take account of the recruitment and retention position, management requirements, costs and economic circumstances. Arbitration would be by mutual consent. An independent Pay Information Board would be set up to gather and analyse data for the two sides. The Inquiry also recommended simplifying the pay and grading structure and introducing performance-related pay.

3. In December 1982 the Government indicated its willingness to enter into negotiations with a view to agreeing an ordered pay determination system based on the Megaw recommendations. Noting that both sides would have to accept some limitations on their freedom of action and that both sides would seek safeguards from their respective points of view, including in the Government's case safeguards to the public purse and public policy, the Government said that it was nevertheless prepared to accept, in principle, the broad approach of the Megaw recommendations and to negotiate on them with goodwill and the intention to succeed.

4. Negotiations on a longer-term agreement based on Megaw began early in 1983. In the judgement of the Treasury negotiators, the fact that these negotiations on the longer-term were in progress was a significant factor in securing union agreement to a 1983 settlement acceptable to the Government.

SECRET

SECRET

AND PERSONAL

5. In the summer of 1983 the unions asked for a statement of the Government's position on what they regarded as three key issues: the role of the Pay Information Board; the width of the range of pay levels within which Civil Service pay levels should lie; and unilateral access to arbitration. The response of 23 September 1983 said that the Government was prepared to discuss constructively the possibility of access by both sides to the raw material collected by the independent data gathering body (so as to check the analyses made by the body), subject to the body's work being accepted as authoritative, and a proper basis for negotiations. The Government declined to narrow the range of outside pay levels within which Civil Service pay should lie, arguing that it was desirable to stick to the inter quartile range (which is likely to provide considerable room for manoeuvre) in order to allow proper scope for other factors to come into the negotiations. The Government reaffirmed its view that there should be no unilateral access to arbitration and said that it could envisage circumstances in which Parliament might be asked to approve the overriding of an arbitration award or of the operation of the new arrangements overall.

6. The unions reacted adversely to this statement of position but were, however, prepared to continue in negotiation on the basis that they would seek to get the Government's position changed. Both sides were prepared to keep the discussions on the longer-term alive on the basis that a satisfactory long-term agreement was, over time, better for both sides than annual free bargaining. Both sides, therefore, agreed to consider the possibility of some form of data collection to inform but not constrain the 1984 pay negotiations, to prepare for the kind of arrangements being discussed for the longer-term. Such data collection was based on the assumption that the two sides remained in negotiation over Megaw and were moving forward towards acceptable long-term arrangements; specifically the data would not constrain the negotiations and specifically there was no advance commitment to arbitration for 1984.

7. Discussions on the longer-term continued over the Winter. They were interrupted by union preoccupation with GCHQ but are shortly to be resumed. It is clear that there remain significant differences between the two sides. These include:

- (a) Arbitration, where the unions want unilateral access to arbitration without any Parliamentary override and the Government want joint

SECRET

SECRET

AND PERSONAL

access with a right to Parliamentary override and with a right to override the operation of the agreement itself.

- (b) The attitude that should be adopted towards the framework for setting the inter quartile constraints on movements and levels.
- (c) The size of the constraints so far as levels go.
- (d) The position during the transitional period and whether and if so to what extent the movements constraints should bite here.

There are also potentially awkward questions relating to eg the handling of relativities and structure and shape of the PIB or similar body.

SECRET

Robin

Many thanks
Pl. put on file.

You were asking whether the PM ever met the unions in 1981 about the pay dispute. The answer is no, but Lord Soames (then Lord President) did meet the unions and on each occasion the minutes were sent to the Union side for clearance.

If you want any further details, Adrian Carter in Treasury Pay Division (2335226) is the contact.

Nicky



CC NO
 Prime Minister ②
 This could come up at next
 Questions.

AF
 29/3

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

28 March 1984

Andrew Turnbull Esq
 10 Downing Street

Dear Andrew,

**OME REPORT ON DATA TO INFORM CIVIL SERVICE
 NON-INDUSTRIAL PAY NEGOTIATIONS**

It was agreed last September that the OME should collect data on pay movements in the private sector to inform, but not in any way constrain, the 1984 negotiations on pay for the non-industrial Civil Service.

The Prime Minister may like to be aware that we expect the OME to present their report to the parties (ie ourselves and the Civil Service unions) later this week, probably tomorrow.

Although we, the Civil Service unions and the OME have jointly agreed the scope and coverage of the report, we do not know what numbers it will contain. It is likely to be quite a complex document, with various tables and analyses. The picture it gives of developments on pay in the private sector over the last 9-10 months may well depend on which analysis is taken as being the most significant.

Despite the intention that the report should only be seen by the parties pending the conclusion of the pay negotiations in the Civil Service, there is a high probability that its content will become known, and Ministers may be asked questions about it. The union side cannot guarantee confidentiality; they need to distribute some 250 copies in order to carry out their internal consultations.

Assuming part or all of the contents of the report become public knowledge, the Chancellor suggests that Ministers and others should take the following line:

- (a) We have received the report. We regard it as confidential to the parties.
- (b) It was designed to inform, but not constrain, the Civil Service pay negotiations. It is not relevant to any other pay negotiations.
- (c) [If questioned about its contents] It is confidential to the parties. The report contains a good deal of material which needs to be considered carefully. It would not be right to comment at this stage on particular aspects of it.
- (d) We cannot anticipate the outcome of pay negotiations with the Civil Service unions. OME report is not only factual. Need also to take account of recruitment and retention and affordability as indicated by the 3 percent pay provision.

CONFIDENTIAL



(e) [If asked whether the report will eventually be published] The intention is that the report should be published in due course.

We shall provide more detailed briefing once we have seen the report and digested its contents.

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

*Yours Sincerely,
Margaret O'Mara*

MISS M O'MARA
Private Secretary



FILE

SH

cc: MOD + F.P. Kasap,
DHSS HMT.
DI Emp. CO

10 DOWNING STREET

M/S, PCO
M/S, HMT (M/Hughes)

From the Private Secretary

26 March, 1984

1984 Pay Negotiations for Non-Industrial
Civil Servants

The Prime Minister has seen, and noted without comment, the Chancellor's minute of 16 March and the attached Report from the Chairman of the Official Group.

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

ANDREW TURNBULL

D. C. L. Peretz, Esq.,
H.M. Treasury

SECRET

CONFIDENTIAL



for Redwood

JD

a MASTER SET

10 DOWNING STREET

From the Private Secretary

19 March, 1984.

Dear Paul,

Merit Pay

The Prime Minister held a meeting on 16 March to consider Lord Gowrie's minute to her of 2 March about merit pay in the civil service. Also before the meeting were the Chancellor of the Exchequer's letter of 9 March, and Lord Gowrie's reply of 14 March. Those present, in addition to your Minister, were the Chancellor of the Exchequer, Sir Robin Ibbs, Sir Robert Armstrong, Sir Peter Middleton, and Mr. Redwood.

Introducing his paper, Lord Gowrie said that the time had come to choose between proceeding with a pilot scheme of merit pay in the civil service, or abandoning the idea altogether. The Megaw Committee had favoured merit pay in principle, and its introduction would complement the Financial Management Initiative (FMI) in laying greater emphasis on the responsibilities of line management. He proposed a pilot scheme of merit pay for Under Secretaries. This was a key grade in securing implementation of the FMI. Eventually, about 25% of those in the grade might receive some element of merit pay. He had also proposed that new entrants to the grade should start at a salary point below the present level, to which they would progress automatically after a year. But he would be prepared to drop this element of the scheme if it did not find favour with colleagues.

Your Minister envisaged that the principle of merit pay would be extended below the Under Secretary grade, to Assistant Secretaries and Senior Principals, if the pilot scheme was successful. Extension to the Principal grade was desirable, but should await resolution of outstanding issues on unified grading. Below Principal, a system of merit bonuses was proposed, again on an experimental basis.

The Chancellor said that he would be in favour of the experimental introduction of a genuine scheme of merit pay. He doubted, however, whether your Minister's proposals achieved that objective. The scheme for Under Secretaries was too closely based on salary scales: as a result, there would be a tendency for people to drift towards the top of the scale regardless of merit, since it would be difficult to withdraw a merit increment once given. He would much prefer a scheme based on annually assessed bonuses, analogous with the "primes" payable to the best French civil servants.

CONFIDENTIAL

/ He

He

CONFIDENTIAL

He was not, however, suggesting such an ambitious scheme for the UK. It would be right to start on a modest scale, and he was prepared to make available £4 million for a worth-while bonus scheme for Under Secretaries, Assistant Secretaries and - he hoped - Principals.

In discussion it was argued that merit pay for individuals should be clearly linked with the achievement of their personal objectives as specified under the FMI. This combination could produce a new but entirely healthy emphasis on "face to face" management. There was a psychological difference between merit pay based on scales and merit pay based on bonuses. Bonuses could be more clearly linked to performance; they could be paid in the first year and would have to be earned each year; and they need not be repeated for those who did not maintain their level of performance. On the other hand it was argued that a scale system might have advantages at the most senior grades, where objective measures of performance were particularly hard to find.

It was noted that a merit pay scheme based on departments could not readily take into account differences between them in the average quality of staff. However, at least for grades below Under Secretary, a centrally administered scheme had to be ruled out because of the numbers involved.

Summing up this part of the discussion, the Prime Minister said that the meeting supported the principle of merit pay, which could be especially valuable at a time when promotion was difficult for talented younger staff. The Minister of State, Privy Council Office, should discuss with the Chancellor of the Exchequer revisions to his proposals to take account of the points made in discussion. The pilot scheme should preferably be based on annual or twice-yearly bonuses, which would be paid as a lump sum rather than as part of monthly pay. The scheme should be applied as soon as possible to Assistant Secretaries, Senior Principals and Principles, as well as Under Secretaries. It was for consideration whether the scheme should allow for a single level of bonus, or for discretionary amounts. Only when the revised scheme had been approved by the full Cabinet should there be consultations with the trade union side, which would also need to cover the extension of merit pay below Principal. The Minister of State, Privy Council Office, should therefore prepare a revised draft Cabinet Paper in consultation with the Treasury as soon as possible.

The meeting also considered briefly your Minister's proposals on job weighting for Permanent Secretaries. No decision was reached on the principle of whether such a system should be introduced, but your Minister was invited to consider, in consultation with the Treasury, two possible

/ amendments

CONFIDENTIAL

CONFIDENTIAL

amendments to the classification included in paragraph 13 of his draft Cabinet paper. The first would be to weight the job of Permanent Secretary to the Ministry of Defence as Grade O, leaving all other Departments as they are now. The second would be to shorten the list of Departments in Grade 1(i), for example by omitting the Scottish Office and the Department of Trade and Industry. The Prime Minister said that she would consider the issues further in the light of your Minister's conclusions on these two points.

I am sending a copy of this letter to John Kerr (HM Treasury), and to Sir Robin Ibbs, Sir Peter Middleton, and Sir Robert Armstrong.

Yours ever,

David

(DAVID BARCLAY)

Paul Cann, Esq.,
Office of the Minister for the Arts.

CONFIDENTIAL

SECRET

Prime Minute ②

To note.

AT 19/3



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

Prime Minister

A handwritten signature in black ink, appearing to be 'M. J.' or similar.

1984 PAY NEGOTIATIONS FOR NON-INDUSTRIAL CIVIL SERVANTS

...

I attach a note by officials which sets out the background to the 1984 pay negotiations for non-industrial civil servants. Their settlement date is 1 April.

2. These negotiations will not be easy. Clearly we shall be working to secure the lowest possible figure but we shall need to consider the expenditure implications for Departments of any settlement above 3 per cent.

3. I invite colleagues to take note of this report. In due course we shall receive detailed recommendations from officials on the Government's negotiating position, which we shall need to discuss.

4. Copies of this minute go to the other members of MISC 66 and to Sir Robert Armstrong.

A handwritten signature in black ink, appearing to be 'N.L.' or similar.

N.L.
16 March 1984

SECRET

SECRET

AND PERSONAL

1984 PAY NEGOTIATIONS FOR NON-INDUSTRIAL CIVIL SERVANTS

First Report to Ministers from the Chairman of the Official Group

Introduction

This report sets out the background to the forthcoming negotiation on the pay of non-industrial civil servants and offers a preliminary assessment of the issues involved. The settlement date is 1 April, but effective negotiations are unlikely to begin before the end of March and no immediate decisions by Ministers are required.

2. There are about $\frac{1}{2}$ million non-industrial civil servants. Each 1 per cent on their pay bill is about £45 million. There are also direct consequentials, for example in fringe bodies.

3. The aim of the negotiations should be to reach a settlement without industrial disruption which is consistent with the Government's general pay objectives; which can be reconciled with cash limits; and which does not lead to a breakdown in negotiations with the Civil Service unions on longer term pay arrangements following the Megaw Report. It will not be easy to reconcile these three aims.

The Principal Factors

4. There are a number of considerations which are likely to affect the overall outcome of the 1984 pay settlement. They do not all point in the same direction. They include the following:-

- a) Data collection by OME. As a step towards/^a longer term framework for pay negotiations based on the proposals in the Megaw Report, it was agreed last Autumn that the OME would collect data in connection with the 1984 pay negotiations; this, it was explicitly agreed, would inform but not in any way constrain the negotiations. The report by OME is expected to be ready in March. It will contain data on non-manual

SECRET

SECRET

AND PERSONAL

pay settlements in the private sector since 1 April 1983.

- b) Cost. Provision is made in Departments' programmes for an increase of 3 per cent in Civil Service pay and related allowances for 1984-85. It has been made clear in published correspondence with the unions that while this is not a norm and does not preclude genuine negotiations, it is a meaningful and important indication of cost and one which has to be given full weight.
- c) Pay elsewhere. The increase in earnings in the economy as a whole is running at $7\frac{3}{4}$ per cent. The Department of Employment's survey shows the average increase in settlements at $5\frac{1}{2}$ per cent. Public sector settlements are excluded from the OME data, but the negotiations will be influenced by any such settlements which have been reached before the Civil Service negotiations are concluded. Local authority manuals' settlement may have settled at $4\frac{1}{2}$ per cent. The Review Body Reports on Nurses and Top Salaries/^{are} due at the beginning of April; settlements may also have been reached by then on the Teachers.
- d) The rate of inflation. The forecast of $4\frac{1}{2}$ per cent for RPI at the end of 1984, and 4 per cent by mid-1985 will be a factor, though it is one which will count for less in the eyes of union negotiators than the level of pay settlements already reached elsewhere.
- e) Recruitment and Retention. The OME will provide some information on the recruitment and retention position of private sector employers, and the available information on the recruitment and retention position in the Civil Service is currently being brought up to date. It is unlikely that this will show the position is notably different from that of other employers, but

SECRET

SECRET

AND PERSONAL

it should be possible to argue that in general our rates are adequate to recruit and retain staff that are needed (even though recruitment and retention difficulties are developing for certain types of staff).

5. The unions are aware that these considerations will have to be taken into account. Recent developments at GCHQ will not make the negotiating atmosphere any easier. It has been made clear to the unions that the Government is not bound to negotiate within the inter-quartile range. Nevertheless, it is unlikely to be possible to reach an agreed settlement with the unions which falls below the lower quartile of outside pay movements emerging from the OME Report. The unions will see the Government's willingness to offer a settlement at least at the lower quartile as a test of its sincerity in seeking longer term pay arrangements based on Megaw. The unions may acquiesce in the imposition of a figure below the lower quartile without resorting to industrial action but this would almost certainly lead to the breakdown of negotiations on the Megaw Report (particularly since there are those on the union side who would prefer not to be bound by any long term agreement with the Government).

Cash Limits

6. As noted, the increase in Civil Service pay and related allowances allowed for in Departmental cash limits for 1984/85 is 3 per cent. This is $\frac{1}{2}$ per cent less than last year when the settlement for non-industrial civil servants represented an increase of 4.86 per cent. There will undoubtedly be difficulties for certain Departments, where spending is mainly on manpower costs, in absorbing within announced cash limits a settlement significantly over 3 per cent without effects on their planned activities and services.

Shape of pay package

7. We see no need this year to introduce additional elements into the negotiations simply in order to provide more scope for bargaining. But there will be a number of elements to be considered in constructing a pay package for 1984:-

SECRET

SECRET

AND PERSONAL

- a) Main pay increase. In line with recent years we envisage an across-the-board settlement for all grades, with one or two minor sectional pay adjustments handled separately from the main negotiations. To attempt to differentiate between different groups of grades would add to the difficulty of negotiations, and subject to the attitude of the unions, we see no management advantage in doing so this year. (It will be necessary in the discussions on longer term arrangements to discuss ways in which sectional pay adjustments can be made in future). We might consider differential treatment for staff at the maximum of their scales (as in recent years) and a lower increase for juveniles than for adults. But these variations can be handled in a way which seems to be most helpful for securing an overall settlement.
- b) Low Paid. The CCSU will probably be looking again for a settlement angled towards the lower paid. We shall want to avoid special treatment for them. It would, however, be desirable to leave open the possibility of some modest movement in that direction if it becomes clear that as last year it would help to secure an otherwise satisfactory settlement.
- c) Pay at Clerical Officer and Executive Officer levels. In last year's settlement adjustments were made to align certain pay points at Clerical Officer and Executive Officer level between the main general service and departmental grades. This was intended to pave the way for the merger of the tax and collection grades in the Inland Revenue. The process of alignment is due to be completed in 1984/85: the operative date will need to be settled as part of this year's pay negotiations.
- d) London Weighting. We propose to negotiate changes in London Weighting alongside the main pay settlement so that they can be costed together. We may not want to

SECRET

SECRET

AND PERSONAL

increase London Weighting in line with pay and there may be a case for differential increases in the 3 bands of London Weighting. But specific proposals will be worked out in the light of the detailed analysis of the recruitment and retention position in London which is only now being completed.

- e) Pay related allowances. While there is as usual a strong argument for adjusting allowances reflecting additional responsibility in line with movements in pay, other allowances which are related to demonstrating greater skill or to recruitment and retention requirements (e.g. allowances for computer, data processing and typing staff) might in some cases be held at their present levels, particularly where they are currently under review.
- f) Hours. Last year the unions' claim for a reduction in the working week of 1 hour in London and 2 hours outside London was put to one side when the settlement was reached. They are likely to return to this claim (perhaps without much enthusiasm) this year. The claim will need to be resisted again. A concession could have undesirable repercussions elsewhere and it would be difficult to absorb its cost without a pay increase smaller than the unions could accept. There will be some limited evidence on hours and leave movements in the private sector available in the OME Report.
- g) Other Items. It may be desirable to introduce one or two other small items into the negotiations including for example an adjustment in the present rules on advances of pay for the purchase of season tickets. These advances currently have to be repaid within the financial year in which they are made. This restriction has reduced the attractiveness of the arrangement to staff but its removal would add to expenditure in the first financial year after the change. Concessions on

SECRET

SECRET

AND PERSONAL

this and other similar points could be contemplated if they would help to secure a settlement.

Arbitration and Industrial Relations

8. When the unions asked earlier about arbitration in the event of disagreement in the 1984 negotiations they were told that there could be no advance commitment by the Government and that the hope was that a negotiated settlement would be reached. Arbitration is a major issue in the discussions with the unions on longer term pay arrangements. Megaw said that access to arbitration should be by agreement. The unions will argue as they have done before that the Government is distorting the provisions of the present arbitration agreement in denying them unilateral access.

9. There is a strong possibility that access to arbitration in the 1984 negotiations will become a major issue. The unions may at some stage offer to accept arbitration restricted by the parameters of the upper and lower quartiles of outside pay movements which emerge from the OME Report. It would be premature to take a firm view about arbitration now. It will first be necessary to establish the prospects for a negotiated settlement and if this seems remote to assess the alternative risks and costs of arbitration and industrial action, now that the unions have built up their strike funds again.

Timing

10. The unions have asked for a meeting of the National Whitley Council. This is now planned for 28 March. It is unlikely that they will want a meeting about pay before that date (and also unlikely that they will table a formal claim).

11. Recommendations will be prepared for Ministers in due course on the negotiating position which should be taken up, including the shape and size of an opening position. The union conferences take place in mid-May. Their aim is likely to be to secure a negotiated settlement or a commitment to arbitration before those conferences take place as a means of heading off any pressure at them for industrial action.

SECRET

SECRET

AND PERSONAL

Conclusions

12. Ministers are invited to note:-

- a) this assessment of the outlook for the 1984 negotiations; and
- b) that officials will make recommendations on the Government's negotiating position in due course.

SECRET

PRIME MINISTER

Merit Pay

Briefing for your meeting on merit pay is attached as follows:

- A. Summary of Lord Gowrie's proposals
- B. Policy Unit comments
- C. Chancellor's comments
- D. Lord Gowrie's paper.

So far, little has been said about the industrial relations implications of these proposals. It could be a mistake to underestimate the strength of trade union opposition. The proposals will appear to the unions to offer a pay rise for the most senior grades in the Civil Service, with nothing except discussions for the grades below.

It is also far from clear how the introduction of merit pay for Under Secretaries is supposed to relate to the current Civil Service pay round, for which the settlement date is nominally 1 April.

As a result of the meeting, Lord Gowrie will be hoping to secure your agreement to the circulation of the draft Cabinet paper at Flag E.

Dms

15 March 1984



80
cc 10

Prime Minister

To note Lord Gowrie's reply
to the Chancellor's letter at
tag C in this folder.

CABINET OFFICE

From the Minister of State

Lord Gowrie

MANAGEMENT AND PERSONNEL OFFICE

Great George Street

London SW1P 3AL

Telephone 01-233 8610

DMS
15/3

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Parliament Street

14 March 1984

Dear Nigel,

MERIT PAY

Thank you for sending me a copy of your minute of 9 March to the Prime Minister commenting on mine of 2 March. I am glad that you are not opposed in principle to the idea of merit, or performance related, pay schemes and that you would not want to stand in the way of a limited experiment. That is all I am seeking.

I was a little puzzled by your comment about Permanent Secretaries. Far from wishing to limit the initial scheme to them my view, reflecting the recommendations of the Megaw Committee, is that merit pay is not appropriate at these levels. All I am suggesting for them is that we pick up a specific Megaw recommendation that there should be greater differentiation of pay at the most senior levels reflecting the significant variations in job weights which exist and which are not adequately catered for in the present arrangements.

The nub of my proposal relates to Under Secretaries who all currently receive a single, flat, rate of pay throughout their careers in that grade. This is in marked contrast to the private sector where differentiation of pay on an individual basis at these levels, is very widespread indeed; and where we have a specific Megaw recommendation that we introduce merit pay. It is also very relevant that Sir Robin Ibbs has not only advised that we should aim to introduce some form or forms of merit pay throughout the Service as a means of fostering efficiency and effectiveness but has strongly represented that the Under Secretary grade is the right one at which to begin the process.

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

LORD GOWRIE

CCNO

Prime Minister (2)

To see the Chancellor's comments. A meeting has been arranged for 16 March.



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

B/H for meeting please.

D
12/3

PRIME MINISTER

MERIT PAY

Grey Gowrie sent me a copy of his minute to you of 2 March and his draft Cabinet paper. I understand that you are planning to hold a meeting about it.

2. I myself am agnostic about the value of merit or performance-related pay schemes. They almost certainly imply some additional cost, in the initial stages at least. But I am not opposed to them in principle, and would not want to stand in the way of some limited experiment.

3. However, I do have doubts about Grey's specific proposal. I see little attraction in limiting the initial scheme to Permanent Secretaries, while the detailed arrangements for Under Secretaries do not strike me as a true merit pay scheme at all. I also think we should find it difficult to contain the costs in the longer run, since it would be difficult in practice to withdraw merit increments once awarded, and I suspect we should find the scheme itself difficult to stop, if we wanted to abandon it after an experimental period.

4. Copies of this minute go to Grey Gowrie, Sir Robin Ibbs and Sir Robert Armstrong.

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

N.L.

9 March 1984



Parliament Chambers, Parliament Street, SW1P 3JL
01 238 3000

9 MAR 1984



On B/UP 15/3

CF: Papers pre.

D
6/3

PRIME MINISTER

(2)

pu

DMS
15/3

MERIT PAY

We are setting up a meeting to discuss Lord Gowrie's proposals on merit pay.

You may meanwhile like to glance at the attached note by the Policy Unit. I do think that the point which John Redwood makes about the relations with the trade union side is important. This is not an easy time to present them with proposals which will appear to offer a pay rise for the most senior grades, and nothing except discussions for the grades which they represent. You may feel also that the relationship between the introduction of merit pay and the forthcoming Civil Service pay round needs to be thought through more carefully.

These are issues which, if you agree, could usefully be discussed at the meeting.

Yes not

DMS

5 March 1984

Civil Service: Pay + Pensions pt 13.

31.3



CONFIDENTIAL

5 March 1984
Policy Unit

PRIME MINISTER

PERFORMANCE-RELATED PAY

At last we have some proposals to reward merit in the Civil Service. The principle should be seized upon firmly and welcomed.

The proposals that have come forward are quite modest. It makes sense to start at Under Secretary level and work down towards Principals. The cost is less, and at that level of management people have some scope for making an impact on their departmental work loads.

The specific proposals themselves have some dangers.

1. We would need to see the basis of assessment of performance before being able to confirm that the scheme is not merely a ratchet mechanism on public sector pay. The "judgemental" approach can easily fall into discredit and disrepair. There must be precise annual quantifiable objectives.
2. They are asymmetrical. Given that Under Secretaries and Assistant Secretaries are well paid, couldn't there be more downside for bad performance than is envisaged in the current proposals? Penalties and rewards must be linked.
3. Is it right that once an individual - in response to hard work and effort - obtains a bonus based on performance, he should then keep it unless there is "a serious decline" in his performance? The increment must be granted on the merits of each year's work, with the assumption that otherwise the individual goes back to the basic salary for his grade. If only one-quarter of all Grade 3 postholders can receive performance pay, and there is no growth in the Civil Service, how can newcomers ever receive this pay if all the original people retain it in perpetuity?
4. Has all this been discussed with the Staff Side? It would be a pity to ruin a good idea by clumsy handling of its introduction.

CONFIDENTIAL

- 5. The rankings of up to 15 per cent increase in salary provide a reasonable incentive. That would be a gross bonus of £4,500 per annum for a £30,000 per annum job which, after tax, would work out at over £2,000 of extra consumable income. I can see people being motivated by such a cash incentive.

Civil Service Structure

It is interesting that Deputy Secretaries have been left out. Logically, they should be included, as they are the senior managers. It may be that consideration of merit pay provides an opportunity to consider whether there are the right number of management levels in the Civil Service. My impression is that there are too many levels. There should be a direct link between Permanent Secretaries responsible for the overall work of the Department, and the Under Secretary/Deputy Secretary level post in charge of major blocks of expenditure and major areas of work within the Department. There may be a case for Assistant Secretaries and Principals, but little case for Principals and ~~Assistant~~^{Senior} Principals.

Could the introduction of merit pay be linked with the ultimate objective of getting rid of a couple of Civil Service grades altogether? Work does not benefit by being passed through 3 or 4 different levels of employee before it gets from the originator to the person who is ultimately going to consume it. The very complex grading system stops the enthusiastic and hard-working, who deserve early promotion, reaching jobs where they can make an impact. People should accept that they will on average spend longer in a given grade, but also know that if they work very well and are particularly effective, promotion can be achieved earlier.

Permanent Secretaries

There is merit in providing pay related to the weight of activity in a given Department. More importantly, there are two unresolved management issues about Permanent Secretaries that have been carefully sidestepped.

It is a nonsense to have two equal ranking people at the top of the Department of Trade and Industry. If the merger is going to be made a success (and preferably with the benign influence of Trade being seen more effectivly over the less satisfactory area

of Industry) the two posts have to be amalgamated into one. Secondly, the Cabinet Paper is silent on pay for Second Permanent Secretaries. They are also important postholders who should be brought into the net.

Conclusion

We need to spell out more carefully what performance is and how it can be measured. It should be as quantifiable as possible, preferably related to expenditure control and value for money. It should concentrate on good management which is measurable: it is difficult to reward policy work. It has to be assessed annually for each postholder. This opportunity should be seized to make senior managers in the Civil Service more responsible for their actions, and to give them an incentive to carry out their task well.

The private sector is not all modelled on the ICI system: the more successful enterprises are the ones where performance bonuses have to be earned year after year on the merits of that year's work. Policy Unit members from Vickers and Rothschilds could tell you how that keeps people on their toes!



JOHN REDWOOD

Civil Service: Pay + Pensions pt 13.

11.11.51

PRIME MINISTER (1)

Merit Pay

Lord Gowrie seeks your agreement to the circulation of a paper to the Cabinet on merit pay.

The main features are:

- (i) A five point scale of merit pay for Grade 3 (Under Secretaries), to be introduced from 1 April, 1984. Details are in paragraph 9 of the Cabinet paper, and its annex.
- (ii) Possible extension to Grades 4, 5 and 6 (as far as Senior Principal) from 1 April, 1985.
- (iii) Job weighting for Permanent Secretaries from 1 April, 1984. The suggested two-way split between Departments is set out in paragraph 13 of the draft Cabinet paper.
- (iv) Discussions with the unions on performance bonuses for grades up to SEO, with a view to introduction from 1 April, 1985.
- (v) Performance pay for the Principal Grade to be deferred pending decisions on unified grading at that level.

I understand that the Chancellor may have substantial reservations about these proposals. There is, in particular, no immediate prospect of additional incentives to counteract the high level of resignations among good Treasury Principals.

Agree to await the Chancellor's comments and then consider the need for a meeting before the papers are more widely circulated?

Yes
MB

Soon
MB

DMB

2 March, 1984



MINISTER OF STATE, PRIVY COUNCIL OFFICE

PRIME MINISTER

I have been considering with Sir Robert Armstrong and Sir Robin Ibbs the question of introducing performance-related pay into the Civil Service.

2. From the time when your first Administration took office, nearly five years ago, we have been committed to the idea of introducing performance-related pay into the Civil Service pay arrangements. There has been much study of performance-related pay systems in private industry and in other Governments. We asked the Megaw Committee to consider the question of merit pay, and they made recommendations. But we have made no move to introduce merit pay. Sir Robert Armstrong, Sir Robin Ibbs and I think that the time has now come to stop discussing it and start doing it.

3. Our proposal to you is that the Government should now commit itself to the introduction, within a defined time-scale, of merit pay arrangements at all levels of the Civil Service; and make an immediate start at the top levels. There are a number of reasons for going this way about it:

- (1) changes at the top can be made quickly, because there is no need for negotiation with unions;
- (2) they will be an earnest of the Government's determination to act;
- (3) the cost of changes at the top is negligible;
- (4) changes at the top can be treated and announced as intended and designed to give us initial experience in the light of which the further extensions of merit pay can be more effectively prepared.

CONFIDENTIAL

We propose that the whole operation should be, and be presented as, experimental, so that the Government is at liberty to change it in the light of experience or even abandon it if it is not having the results we hope for. But it is also important that in our introductory announcement we should present our proposals as intended to cover the Service as a whole. If (as we propose) we start at the top, we shall need at the same time to indicate how, where and when we expect to make further progress.

4. Our detailed proposals are:

- (a) that we should agree now to replace the existing flat rate of pay for Under Secretaries and their equivalents (Grade 3 in our new grading structure) with a scale of five steps. The scale would start below the present rate of pay for the grade, and newly promoted staff would normally move from that to the second point, equivalent to the present rate of Under Secretary pay. Progress beyond that to the top three points would depend on relative merit and performance in the management task. Such a system would be like that operated at this level by ICI and quite common in the private sector. Standard procedure requires us to ask the Top Salaries Review Body (TSRB) to 'price' the new scale, but this need not be a big task and their conclusions could almost certainly be incorporated in the report they are due to give us this spring;
- (b) that we should be ready to extend the new system downwards to Grades 4, 5 and 6 (ie to Senior Principal and equivalents) next year and should say so now;
- (c) that, following the Megaw recommendation that pay at higher levels should be based not on merit but on comparative job weight, we should introduce a simple form of job weighting for Permanent Secretaries (but not at this stage for Deputy Secretaries); the new rates would again be priced by the TSRB;
- (d) that we should announce our willingness to open discussion with the unions in the coming year on the introduction

For further details see para 9 of the draft Cabinet paper.

*Doub
2/5*

of merit bonuses for grades up to SEO (again both a Megaw recommendation and widely used, in varying forms, in the private sector. ICI for example, particularly use them to recognise and encourage good service over a long period by people who have otherwise reached their ceiling).

We would make no commitment on method, extent or cost. But we have an interest in carrying the unions with us if we can; there are genuine uncertainties as to method; and, without some such move we would be open to the accusation that we see merit pay as giving more money to the top at the expense of the generality;

(e) given that we are breaking new ground, we should announce that we propose to review the new arrangements in three to five years' time to decide whether to expand, continue or retract them.

5. The cost of the Permanent Secretary change would be negligible; of the Under Secretary scheme about £ $\frac{1}{4}$ million a year; and of extension next year to Assistant Secretaries and Senior Principals about £3-4 million a year. At these levels therefore we are talking of very small sums indeed in relation to the total Civil Service pay bill (in excess of £4 billion a year). Extension of performance related pay to other levels would be potentially much more expensive; however, we should be able to control the amount of money if we advance by the 'bonus' route.

6. You will see that these proposals omit the Principal grade. This is not because performance-related pay has no role at this level (far from it) but because we will be considering in the course of the year the unification of the Principal and equivalent grades across professional boundaries. Given the wide range of jobs and job weights involved it may well prove necessary to split the unified grade into two separate pay scales. It would be sensible to defer decisions on performance-related pay in this area until we have come to conclusions about unified grading.

7. These proposals are a firm first step in the direction of performance-related pay. But we genuinely need to feel our way and avoid incurring major expenditure until we have established

the benefits through experience. We have already accepted in principle the case for the introduction of performance-related pay into the Civil Service. I think that the time is now right to make an early start. The attached draft Cabinet paper has been prepared on that basis.

8. In coming to their decisions on the proposal to go ahead with performance-related pay arrangements, and in considering the particular proposals in the paper, colleagues will be concerned with public presentation as well as with the managerial case for action. One presentational issue which may concern them is whether the present package is not too heavily weighted towards senior staff (action for them but discussions only for their juniors). If colleagues thought that this was a real difficulty, we could no doubt defer the implementation date for senior ranks to 1985, in the hope that we could then combine it with the implementation of other parts of the proposals - including perhaps a start on performance bonuses at lower levels. But I would hope that colleagues could be persuaded to make an early start, as we have proposed. The time is right, in the sense that the proposals are in the spirit of the financial management initiative and follow Megaw recommendations; and Sir Robin Ibbs attaches particular importance from the point of view of the drive to improve efficiency to motivating those at the top on whose commitment and effectiveness the spread of efficiency down the line crucially depends.

9. Some colleagues may argue that performance-related pay arrangements are likely to demotivate the generality of staff who are not able to benefit. This risk is inherent in the introduction of any performance pay system but private sector experience indicates that it does not occur in a good system that is properly introduced. We need to be robust about this; we are looking to link rewards to performance. If we are not prepared to accept that, we had better abandon the whole idea of performance-related pay. But in presenting our proposals it will be important to avoid providing any handle for criticism on these lines.

CONFIDENTIAL

10. If you are broadly content with these proposals, I would put my paper, amended as necessary, to Cabinet for early decision.

11. I am sending copies of this minute to the Chancellor of the Exchequer, in case he has any comments to offer, Sir Robin Ibbes, and Sir Robert Armstrong.

Bg
/

LORD GOWRIE
2 March 1984

CONFIDENTIAL

DRAFT

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

C(84)

COPY NO

February 1984

CABINET

LINKING PAY AND PERFORMANCE

Memorandum by the Minister of State, Privy Council Office

The Government is committed to considering ways of introducing performance-related pay into the Civil Service, in the light of the report of the Inquiry into Civil Service Pay (the Megaw Report). This commitment was made in the statement of personnel priorities announced in Parliament on 14 July 1983, and was repeated in the White Paper on Financial Management in Government Departments.

2. We are engaged upon a profound change in the style and professionalism of management in central Government, with much greater emphasis on value for money and on the dispersion outwards and downwards of financial responsibility and a sense of that responsibility. We have already taken a number of important steps, including the Financial Management Initiative and the introduction of a programme of reform of personnel work. We need to support this programme of change by encouraging good performance and by increasing motivation in the Civil Service to accept this change of style and make it effective.

3. This implies a system of rewards for especially good performance and penalties for unsatisfactory performance. I am looking separately at the disciplines and penalties for poor performance. In this paper I deal with rewards for good performance.

4. Hitherto the main incentive to good performance in the Civil Service has been the prospect of promotion to a higher grade. This is no longer a sufficient incentive, with the sharp diminution of promotion prospects which is the inevitable consequence of our reductions in the size of the Civil Service, particularly at the higher grades. One consequence of this is that about two-thirds of the Civil Service are now at the maximum of their present pay scales, with much reduced prospects of promotion and no alternative possibility of improved personal reward other than the general annual pay increase. This strengthens the case for the early introduction of some form of performance-related pay system.

5. Ever since we took office in 1979 we have accepted in principle the case for a scheme of merit pay. So far we have done nothing, partly because of the uncertainties and differences of opinion about the best system of merit pay for the Civil Service. I now invite the Cabinet to approve an experimental and evolutionary approach, based upon that suggested in the Megaw Report which envisaged:

- (1) performance-related pay ranges in place of rates or scales for staff at Grade 3 (Under Secretary) down to Principal level;
- (2) a closer matching of pay to the job weight of individual posts at Permanent and Deputy Secretary levels;

(3) performance bonuses for non-industrial staff at Senior Executive Officer and below.

6. Performance-related pay should, if it is to be introduced at all, be available at all levels in the Civil Service. It will not be possible to introduce a fully-fledged comprehensive scheme at a stroke. If merit pay is (as I think it has to be) introduced in stages, it will be desirable to introduce it at the highest possible levels in the Civil Service, both in order to demonstrate that the incentives and disciplines of performance-related pay apply at the highest no less than at the lower levels of the Service, and in order to motivate the senior managers on whom the speed of the drive for efficiency especially depends. There would be some difficulty in introducing a merit pay scheme at Grade 1 (Permanent Secretary) or Grade 2 (Deputy Secretary) level without involving Ministers directly in setting the pay of individual officials: something I take it we should want in principle to avoid. Hence my proposal, following Megaw, to start at Grade 3 (Under Secretary) level. But we should consider the Megaw proposal for job weighting for Grades 1 and 2.

7. I recommend that we regard and announce anything we decide to do now as experimental, and subject to review after (say) three to five years. We shall need to review whatever schemes we introduce now, to see if they are working as we intended and producing the results we want them to have.

8. My proposals, again following Megaw, are for performance-related pay ranges at the higher levels and performance bonuses at the lower levels. A performance-related pay range scheme

would arguably be less feasible and more expensive than a performance bonus scheme. Nonetheless I recommend that we follow the Megaw proposals, not just because they have the authority of Megaw, but also because:

- (1) they would give us experience of the different kinds of merit pay scheme;
- (2) experience in the private sector suggests that a range-based scheme is more appropriate, realistic and feasible than a performance bonus scheme at senior management levels.

The proposals are as follows:

PERFORMANCE-RELATED PAY RANGE FOR GRADE 3

9. I propose that we should introduce from 1 April 1984 a performance-related pay range for Grade 3. The range would have five points. The first point, at (say) 95 per cent of the normal rate, would be a probationary point for the first year of service of those newly appointed to the grade. The second point would be the "normal" rate for the grade. The third, fourth and fifth points would be (say) 105, 110 and 115 per cent of the normal rate. These points would be awardable according to individual performance. This would be judged by the Head of Department, usually the Permanent Secretary, in consultation with the Deputy Secretaries. A maximum of 25 per cent of the Grade 3 postholders could be in receipt of exceptional performance increments. These increments would be withdrawable in the event of a serious decline in performance, but subject to that the broad intention would be that an increment once rewarded should be retained, and should be pensionable. The Top Salaries Review Body would be asked to recommend what the normal rate and the range of increments should be.

10. This scheme is described in more detail in an annex to this paper. I recommend that it should be introduced from 1 April 1984 for Grade 3 (Under Secretary), and that we should also make it clear that, subject to experience with that grade, it would be extended to Grade 4 (the new consolidated grade between Assistant and Under Secretary) Grade 5 (Assistant Secretary) and Grade 6 (Senior Principal) from 1 April 1985. It might then or subsequently be extended to the Principal grade; but this will need to be considered in the context of other proposals for the extension of unified grading to that level, and for the time being I make no recommendations in that regard.

11. Such a scheme would:

- (1) be a clear signal of our determination to reward effectiveness and get value for money;
- (2) help to deliver better performance;
- (3) be aimed at the grades which are, increasingly, the levels at which operations objectives are defined under MINIS-type systems; and at the grades which are most able to influence managerial action and attitudes in the Civil Service.

JOB WEIGHTING FOR GRADES 1 AND 2

12. There are at present three "grades" of Permanent Secretary:

Grade 0	Secretary of the Cabinet)	
	Permanent Secretary to the Treasury)	£48,000
	Permanent Under Secretary of State)	
	Foreign and Commonwealth Office)	
Grade 1	Permanent Secretaries in charge of Departments)	£42,750
Grade 1A	Other (or "Second") Permanent Secretaries)	£39,500

This lumps together all Permanent Secretaries in charge of Departments, whatever the weight of their policy and management responsibilities. There is clearly a large difference between the job weight for (for example) the Permanent Secretary to the Ministry of Defence, with responsibility for the management of more than 200,000 staff, and that of (for example) the Department of Energy, with about 1,200 staff, and a correspondingly clear case for some difference between the two in job weighting and remuneration. On the other hand, it is questionable whether we should look for too complicated or sophisticated a set of weightings; apart from everything else, that would be taken to imply a pecking order of Departments which could fetter the Prime Minister's discretion in recommending Ministerial appointments.

13. If the Cabinet decides in principle in favour of job weighting for Permanent Secretaries, I recommend that in this experimental stage we should confine ourselves to two levels at Grade 1, reflecting a broad assessment of differences in weight of a combination of policy and management responsibilities:

Grade 1(1) Permanent Secretaries to the Ministry of Defence
 Home Office
 Scottish Office
 Department of the Environment
 Department of Trade and Industry
 Department of Health and Social Security

Grade 1(2) Other Permanent Secretaries in charge of Departments

The Top Salaries Review Body could be asked to recommend appropriate salary rates in its present review, to come into effect from 1 April 1984.

14. At Grade 2 (Deputy Secretary) level, the weight of the load tends to be reflected in the number of posts at the level in the Department: the Ministry of Defence (for example) has 17 Grade 2 posts, while the Department of Energy has only 3. I am not convinced that job weighting of individual posts varies so markedly as to justify differences of remuneration. I recommend that this should be subject to further examination.

PERFORMANCE BONUS SCHEME

15. The Megaw Report recommended that at grade levels up to that of Senior Executive Officer a limited number of pensionable bonuses should be available each year on evidence of consistently outstanding performance. I recommend that we should now accept this recommendation in principle, and announce that we propose to discuss with the unions the forms which a system of non-pensionable performance bonuses might take, with a view to introducing a scheme on an experimental basis from 1 April 1985. This will have the advantage of demonstrating our intention to introduce performance-related pay arrangements right through the Civil Service, not just at higher levels; and will give us the opportunity of discovering whether arrangements can be devised which are reasonably acceptable to the staff (and therefore likely to achieve our objectives) and can be introduced at a reasonable cost.

16. Performance bonuses could be expressed as a proportion of salary or as absolute amounts. These amounts, and the numbers of staff eligible to receive them, would depend on how much we were prepared to afford. There would have to be criteria for eligibility, and arrangements for deciding who of those eligible

should receive bonuses. All these questions will require further detailed work and discussion with the Civil Service unions. At this stage I seek no more than a decision in principle to introduce a system of performance bonuses at these levels from 1 April 1985, and to discuss details of such a system with the Civil Service unions. I will discuss with the Chancellor of the Exchequer the amount of money which we can afford to provide for this.

CONCLUSIONS AND RECOMMENDATIONS

17. We need to act now to reinforce the pressure for an improved style and greater professionalism of management in the Civil Service, and for better value for money, by introducing arrangements to link pay to performance.

18. I invite the Cabinet:

(1) to approve the introduction of a performance-related pay range for Grade 3 (Under Secretaries) from 1 April 1984, with the prospect of extension to Grade 4 (the grade between Assistant and Under Secretary) Grade 5 (Assistant Secretaries) and Grade 6 (Senior Principals) from 1 April 1985

(paragraphs 9 to 11);

(2) to consider the introduction of a simple system of job weighting for Permanent Secretaries in charge of Departments (paragraph 13);

(3) to agree in principle to the introduction of a system of performance bonuses for grades up to and including Senior Executive Officer from 1 April 1985, the details to be discussed with the Civil Service unions.

19. If the Cabinet decide accordingly, I recommend that the schemes should all be regarded as experimental and as a single package. This will enable us more readily to counter criticisms from the media and elsewhere that, despite the managerial advantages, we are favouring senior civil servants. I further recommend that the Head of the Home Civil Service should be instructed to audit their effectiveness and to report further so that the Cabinet can in due course consider whether to introduce definitive schemes of performance-related pay and, if so, what form these schemes should take.

ANNEXPerformance Pay Scale for Grade 3 (Under Secretary)

<u>Present Pay</u>	<u>Proposed Performance Scale</u>	
£	£	
27,500 (flat)	26,125	95%
	27,500 normal performance point	100%
	28,875 performance 1 increment	105%
	30,250 performance 2 increment	110%
	31,625 performance 3 increment	115%

Those newly promoted would expect normally to advance to the equivalent of the present flat rate after one year, though management would have the right to defer the move to the end of the second year if performance was not up to standard. This probationary starting point is not an essential feature of the proposal; but it has a certain logic as reflecting the learning curve on first appointment to the grade, and would help to reduce the cost of the scheme. Beyond the "normal" rate, a maximum of 25 per cent of the staff could be in receipt of exceptional performance increments at any one time (15 per cent on merit 1; 5 per cent on merit 2; 5 per cent on merit 3). Arrangements will need to be devised to apply these budgetary limits in Departments where there are very few Grade 3 posts. The Top Salaries Review Body would need to decide how the performance pay scale should be taken into account in advising on pay levels for the grade.

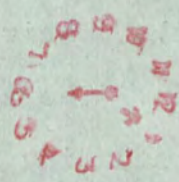
2. Decisions would be taken by the Permanent Secretary of the Department, in consultation with Deputy Secretaries, within whatever budgetary limits were set.

3. The broad intent, following the private sector, would be that exceptional performance increments would be retained from

year to year (and thus be pensionable if held during the last three years of service before retirement). Their retention would be subject to positive annual affirmation. The additional increments would be intended to mark outstanding performance, and their award and retention would be on the explicit understanding that they would be retained only as long as the standard of outstanding performance is kept up. In practice an ebb and flow of awards would be expected.

4. There would be no formal machinery for appeal. Decisions would be conveyed to each individual personally by the Permanent Secretary. As in the private sector, and elsewhere in the Civil Service where pay scales operate, salaries of individuals would not be published.

5. Common guidelines might be appropriate to assist senior managers in their assessments, and the maintenance of a reasonable degree of consistency across the Service. The Head of the Home Civil Service would audit the scheme to ensure that awards are correctly made, and to monitor the effectiveness of the scheme.



2-11
MAR 1984

PART

13

ends:-

DB to R. Hatfield 17.1.84

PART

14

begins:-

M/S MPO to PM 2.3.84

