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PART A

Part A.

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Begins: 16/9/88  
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Pt.A.

Chancellor's (Lawson) Papers:  
London weighting and pay settlements  
for London Civil Servants.

DD's: 25 Years

*J. Anderson*

20/3/96.

PO CH | NL | 0530.  
Pt.A.



H M Treasury

Parliament Street London SW1P 3AG

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PERM. SECY. OFFICE
RECEIVED
19 SEP 1988
FROM: Mr Cobble
TO: Mr Anson

Sir Peter Middleton KCB  
Permanent Secretary  
H M Treasury

16 September 1988

Dear Peter,

GRADE 7 PAY

Senior officials and Ministers who bought their homes some time ago may not appreciate the extent to which the living standards of grade 7s in the Treasury have fallen, to a large extent because of the boom in house prices.

As you know, Civil Service pay has for some years been declining relative to the pay of other professions. It is clear that, mainly because of the rapidly rising cost of mortgages, the real standard of living for a young grade 7 in London shows a steep decline in recent years. As a result, actual budgets for existing grade 7s have become in many cases very strained. We think it is reasonable for grade 7s who are single to have a flat in a central area of London and those who are married to have some kind of family home. But the current level of pay now means that for young Grade 7s:

- (a) it is now no longer possible to be a sole earner family without making enormous sacrifices;
- (b) two earner couples now cannot buy the house a one earner couple did in the late seventies;
- (c) they live in smaller accommodation, in areas with higher levels of violence and poorer schooling for their children.

The implication of the paper is that pay in London needs to be substantially higher, mainly to take much more account of current house prices.

14/2/88

We have not yet seen anything like the full effects of the squeeze on the standard of living of Treasury grade 7s, some of whom were able to enter the property market some years ago at more favourable prices. The current low standard of living is sapping morale and causing widespread anger and frustration - especially given the high earnings potential of Treasury officials. Unless something is done to raise substantially the average level of salaries, the Treasury will in time become a very different place in which to work.

I hope that this letter and the attached paper, written by the branch committee, demonstrate the strength of feeling of many FDA members in the Treasury. Some senior officials and Ministers give the impression that they doubt the commitment to the public service: the fact that many of us work in poor conditions here shows such doubts are misplaced. The real question is whether senior officials and Ministers can match that commitment by facing up to and tackling what have become serious financial problems.

You will not be surprised if I say that your reply of 25 July (to my letter of 6 July) seemed to us to fail to show that sense of urgency which we think is needed, particularly in making use of the provisions for flexible pay.

Can I suggest that you send this paper and correspondence on to Ministers? I and some of the branch committee would very much like to talk to you about this paper and your reactions to it.

I am copying this letter and attachments to David Butler and to Chris Kelly.

Yours ever  
Huw

**H P EVANS**  
Chairman, FDA Branch and  
on behalf of the committee

Cost of Living and Grade 7 Pay

Below are two budgets showing in practice why Grade 7 pay is inadequate. Two cases are taken: a sole earner Grade 7 with a spouse and child and two full time Grade 7s with one child. After paying for basic necessities - housing costs, utilities, transport, groceries and, as necessary, child care - either a sole earner or a two-earner couple would have virtually no money. (In practice people are likely to move between these two cases.) Separately we describe the cost of living for a single person.

House values

2. The first point to make is that in recent years house price inflation has been enormous and civil service remuneration has taken less account of this than other employers. To set this in context it is helpful to see the current value of houses senior officials live in. On the basis of a 50 per cent sample of Treasury Grades 1-3, the range is £200,000-£400,000 and the average figure is 280,000. This takes no account of second houses, which 20% of Treasury Gs1-3 own. It is probable that in most cases senior officials bought their main houses as principals.

What can a Grade 7 afford now?

3. To ease the arithmetic we assume earnings in the middle of the scale at £20,000 - in fact this pay is only earned by those with 3-4 years seniority ie those over the age of 30. The person we are considering therefore has 10 years' work experience or at least 10 years since being an undergraduate. Given the constraints of biology (admittedly most unfortunate from the point of view of Treasury pay policy) this person needs now or in the very near future to be able to afford to keep children.

(a) The mortgage

4. The building society rules are 3 x salary for a single-earner and 2½ x joint salary for a two-earner couple. So a sole earner couple can borrow £60,000. This means net monthly payments of £547 out of a take-home salary of £1,244 (with tax relief being given on the mortgage payment under MIRAS).

5. A couple (of Grade 7s married to each other) can borrow £100,000. This means net monthly payments of £964 out of a post-tax salary of £2,487 (assuming separate taxation).

(b) Capital

6. Assuming that as an HEO(D) 3 or 4 years ago the person bought a flat for £30-£35,000 with a mortgage of £30,000 each will now be able to sell for about £60,000 and thus have capital of £30,000. In addition they will need the costs of purchasing in cash. These will be £3-5,000. Then there will be the cost of furnishing and decorating a further £3,000. So depending on whether both have capital the sole earner can buy a house for £90,000 to £120,000 and the 2 earner couple for £130,000 to £160,000. Without capital people are correspondingly worse off being able to raise only a mortgage to cover 95% of the cost of a home.

7. As the figures above show this means they cannot buy a property worth as much as that bought by the senior official at the lowest end of the range fifteen years ago. This is the first important lesson to be drawn. Even two Grade 7s working full time cannot afford a house as valuable as that which one Grade 7 could buy fifteen years ago: either it is smaller, has no garden or is in a poorer area. The attached map (for South London only) and tables (for Greater London) are interesting. They show where it is now possible to buy houses for these sums. For example the sole earner may only be able to afford an unrenovated house, in Brixton, East Dulwich or Crystal Palace. The couple with £160,000 could buy a renovated house in South Wimbledon, Streatham, West Norwood or Camberwell; or in Clapham, Balham, Stockwell and Blackheath if they were prepared to live in unrenovated property.

8. Having spent all the capital and having mortgage payments of £547 to £964 per month it is going to be difficult to save money to do the house up. The cost of this and decoration can easily run into thousands of pounds.

9. Finally it should be added that the rental market is now much smaller and more expensive than in the past. Renting a 2 bedroomed flat in Central London costs about £500 per month.

#### The quality of life

10. The second important point is that the quality of life in say Peckham and Balham is not as high as in Islington, or Dulwich. This is not a question of snobbery about one's postcode. There are other important factors eg:-

(i) The level of violence This is obviously of particular concern to women and those with children. There are three rapes in Lambeth every week. This is another reason for not buying the cheapest properties. Single women in particular are vulnerable in basement flats, which are the cheapest. Several people are known to us who have been attacked in the street in these parts of South London and one who was tied up and raped in her own home. Break-ins and burglaries are also more frequent as the insurance premia demonstrate: one Grade 7's house had the hall bannisters and windows smashed, another has been burgled 3 times in the past 6 months.

(ii) Public transport is bad (the tube does not run in many parts of South London); this means spending money on taxis (£5 per journey - at least) or having a car. This is very expensive and not having a car is the most common economy among Grade 7s.

(iii) Schools Most people are concerned that their children go to good schools. Many in grades 1-3 send their children to fee-paying schools. This is no longer a realistic option and accordingly we have not included it. The map shows where Grade 7s can afford to live. By and large, although most primary schools are adequate this is not true of secondary schools in those areas. Not being able to live in areas with good schools is not a matter of concern for purely selfish reasons - it would be extraordinary if Treasury officials who

are all themselves well-educated did not wish their children to have good schools.

### Commuting

11. It may be thought that commuting answers many of the problems of living in the poorer parts of London mentioned above. In fact houses are not markedly cheaper in Surbiton than in Balham - or indeed in Guildford rather than Hackney. However, there are advantages - these places are certainly safer and the schools in Kingston, Bromley and Surrey are generally well-thought of. So it would be possible to buy a small house further away and not contend with these problems. However, there are limits to ideal commuting distance, particularly for people who are expected to work in Private Office and other demanding jobs. It may be difficult to work a 55-60 hour week if on top of that 2 hours a day are spent travelling. For people with small children it would probably be impossible. It will certainly reduce flexibility especially in the evenings. Moreover, travel to work costs will increase from £25-£50 to £100 per month.

### Small children

12. We have assumed the sole earner is married and has a spouse who looks after the child and in both cases that £7.25 child benefit per week is used for the child's needs.

13. Assuming both work full time at the Treasury, it is necessary to pay someone to look after the children from 8.30 am to 7 pm, (if we are expected to work 9.30 to 6 pm. Assuming it takes 45 minutes to travel and you must build in some overlap or handover time.) This is 52½ hours per week. Living further out would raise this figure making it difficult to find anyone to work such hours.

14. In such circumstances paid full-time care is the only option. The going rate for a qualified live-in nanny is about £100 per week after tax. Taking into account tax, national insurance, expenses and board the cost may be around £150 per week. An extra room, adding at least £30,000 to the cost of the house, is essential. A nanny who does not live in would not incur such costs, but would require a higher salary.

### Case A - sole earner couple, one child

Income	£1,245	Mortgage	£547
		Rates	£ 40
		Widow(er)'s pension	£ 19
		Season ticket	£25-50 or 200
		Insurance	£ 30
		Utilities	£ 50
		Groceries,† cleaning materials, toiletries, meat, stationery, postage, TV licence fee, newspapers, dry cleaning, dentist/optician and working lunch	£300
		Car	<u>£200</u>
		Total	<u>£1236</u>

Case B -Two-earner couple, one child

Income	£2,487	Mortgage	£ 964
		Rates	£ 60
		Widow(er)s' pension	£ 38
		Season Tickets	£50-100 or 200
		Insurance	£ 30
		Utilities	£ 50
		Groceries† etc	£ 335
		Child care	£ 600
		Car	£ 200
		Cleaner	£ 80
			£
		Total	<u>£2482</u>
		Difference	£5 per month.

† Higher costs, if both work, on lunch and dry cleaning (full figures supplied on request)

15. This means that in either case there is no money to pay for holidays, furniture, entertainment, books, records, alcohol, gifts at Christmas, house maintenance, repairs, decoration or clothes.

Mortgage Rate Changes

16. It is obvious that when the mortgage takes such a large percentage of income, changes in the mortgage rate have a huge impact on people's financial position. Fluctuations in interest rates make budgeting virtually impossible. When a 1% change can make a £50 difference per month it is very difficult to find offsetting economies.

17. The situation has, of course, worsened considerably in the last 6 months:

Increase in annual mortgage payments

Mortgage	Gross interest payments		net interest payments		Annual Change	Monthly Change
	9½%	12½%	9½%	12½%		
30,000	2,850	3,750	2080½	2812½	732	61
60,000	5,700	7,500	4930½	6562½	1632	136
100,000	9,500	12,500	8730½	11562½	2832	236

Meanwhile, the gain in tax cuts from the budget was: for the married man sole earner £305 p.a (£25 per month) and the 2 earner married couple £662 p.a (£55 per month), which meet one fifth of the higher housing costs.



### Single people

18. Particularly high costs are met by single people on the following: accommodation - flats are relatively costly compared to houses; the "infrastructure" - furniture, etc; holidays, entertainment and transport. For single women security adds to the cost of housing and transport in particular.

### DYNAMICS

19. This paper has concentrated upon the current position of Grade 7s. For housing costs over the last decade, Annex A shows how this position has deteriorated:

(a) Ten years ago, two married principals could afford a family home now worth £170,000 (two-thirds the average value of senior officials' houses) through a mortgage alone. Now they would need capital of over £80,000.

(b) A single earner couple can no longer afford a modest terraced house.

(c) HEODs cannot afford to buy a flat even in one of London's less attractive areas. Without an equity stake, they will find it next to impossible to buy a family home in the future.

20. The paper has demonstrated the realistic expectations of quality of life affordable by today's Grade 7s and HEODs. Housing, a basic determinant of standard of living, takes a larger proportion of income in return for poorer quality. The knock-on effects of living in poorer neighbourhoods are clear - higher levels of violence and poorer standards of schooling. In order to maintain this diminished basic standard of living today's Grade 7s must make significant sacrifices because of reduced disposable income, ranging from forgoing holidays and car ownership to delaying having children.

### CONCLUSION

21. Sometimes senior officials and ministers give the impression that they doubt the commitment of Grade 7s to the public service. The fact that we have been working in these conditions shows such doubts are misplaced. The real question is whether senior officials and ministers can match that commitment by facing up to and tackling these financial problems.

**Effects of house price rises 1978-79 to 1988-89**

In the 1960s and 1970s, civil servants were able to buy family homes in London without depending on the capital gain from an earlier home and without massive savings. Some may even have managed with only one earner.

2. Those homes are now worth an average of £280,000\* and are beyond the means of two young principals, even if they have sold previous homes, have saved and both continue to work while bringing up children. The point of this comparison is to show that young civil servants are badly off not just relative to high-paying sectors such as the City - but also relative to older colleagues.

3. This slippage is now happening very fast. For example, a principal on the scale minimum could buy a modest two-bedroom converted flat in an outer London suburb in 1983 on a 95% mortgage. Four years later, a principal at the top of the scale could hardly have afforded it. AT/HEODs find it increasingly difficult to get a foothold in the market. Therefore they will end up as Grade 7s without any equity to help in the purchase of a family home and the financial sacrifices required from current income will be greater still.

**Analysis**

4. The tables attached use house price indices from the Nationwide Anglia building society. Each table gives a run of prices over the years from 1978-79. It shows the mortgage that could be sought on the basis of three times a single earner's salary or two and a half times those of a working couple; the remaining capital needed to buy the property (making no allowance for transaction costs); and the equivalent length of time it would have taken the earners to save that capital on their present level of salary.

5. They show that:

(a) A one-earner couple can no longer afford to buy a modest terraced house.

(b) An HEOD can no longer afford a flat in one of London's less attractive areas.

(c) If civil servants are unable to buy in at an early stage in their careers, buying a larger house for a family will also be beyond them.

6. Together the tables show that only civil servants with the wealthiest of backgrounds are likely to be able to manage the capital sums now needed to become home-owners.

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\*based on a 50% sample of Treasury Grades 1-3

7. In addition, the tables cannot make full allowance for the following:

(a) The decline of the private rented sector, which compels people to seek to own property faster than they used to.

(b) The disappearance of the choice for a civil service couple as to whether one or both will work.

(c) The volume of council house sales over the last decade at a discount, for which fast-stream civil servants will not be eligible and which will depress the house price indices.

(d) As the maximum mortgage extends beyond the MIRAS £30,000 limit, so the share of disposable income consumed by mortgage payments rises disproportionately.

8. A combination of low pay increases, slow pay progression and the diminishing chance of getting a substantial step up the property ladder at an early stage has reduced the living standards of young civil servants to unacceptable levels.

Table 1

Single HEOD  
Flat  
Greater London

		Price	Maximum	Capital	Equivalent	months'
		(a)	mortgage	needed	disposable	income
			(b)	(c)=(a)-(b)	(d)	
1978	-79	13254	15795	-2541		-8
1979	-80	18624	18981	-357		-1
1980	-81	22516	23898	-1382		-3
1981	-82	22426	25662	-3236		-7
1982	-83	23246	27126	-3880		-8
1983	-84	25453	28248	-2795		-5
1984	-85	30111	29304	807		1
1985	-86	35914	32802	3112		5
1986	-87	42563	34749	7814		12
1987	-88	54060	36873	17187		24
1988	-89	64070	39282	24788		31

Mortgage multiple 3

Table 2

Married Principal  
Terraced house  
Greater London

		Price	Maximum	Capital	Equivalent	months'	Salary	Deflated
		(a)	mortgage	needed	disposable	income		
			(b)	(c)=(a)-(b)	(d)			
1978	-79	16430	21768	-5338	-13	52.8	4928	9333
1979	-80	23910	26058	-2148	-4	59.9	6444	10758
1980	-81	28350	34410	-6060	-9	70.7	8080	11429
1981	-82	28880	37377	-8497	-12	79.1	8497	10742
1982	-83	29900	39396	-9496	-13	85.9	8766	10205
1983	-84	34170	40947	-6777	-9	89.8	9036	10062
1984	-85	40030	42510	-2480	-3	94.3	9920	?
1985	-86	47790	44619	3171	4	100.0	9513	9513
1986	-87	55230	47274	7956	9	103.4	10608	10259
1987	-88	73870	49671	24199	25	107.7	11616	10786
1988	-89	89020	53721	35299	33	113.0	12836	11359

Mortgage multiple 3

(not accurate)

Table 3

Married Principals  
Family house  
Greater London

		Price	Maximum	Capital	Equivalent months'
		(a)	mortgage	needed	disposable income
			(b)	(c)=(a)-(b)	(d)
1978	-79	31543	36280	-4738	-6
1979	-80	44857	43430	1427	1
1980	-81	53041	57350	-4309	-3
1981	-82	55692	62295	-6604	-5
1982	-83	57242	65660	-8419	-6
1983	-84	65271	68245	-2975	-2
1984	-85	78601	70850	7751	5
1985	-86	90195	74365	15830	9
1986	-87	103556	78790	24766	14
1987	-88	134060	82785	51275	27
1988	-89	170330	89535	80795	38

Mortgage multiple                      2.5

# AVERAGE PROPERTY PRICES AUGUST 1988

NORTH OF THE RIVER

OFFICE <small>For catchment areas please see relevant office page</small>	STUDIO FLAT	1 BED FLAT	2 BED FLAT	3 BED FLAT	4 BED FLAT	2 BED HOUSE	3 BED HOUSE	4 BED HOUSE	5 BED HOUSE	6 BED HOUSE
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
BOW	47-52	59-75	75-95	85-120	125	80-85	95-130	130-150	165+	185+
CHISWICK	52-65	60-100	60-175	80-200	100-250	100-200	110-250	120-350	145-500	165-650
FULHAM	65-70	80-90	100-125	130-160	RARE	130-150	170-220	230-285+	290-330	340+
GOLDERS GREEN	58-65	65-92	75-180	95-200	160+	85-120	90-220	170+	200+	220+
HACKNEY	45-50	55-60	70-75	85	95-100	85	95-100	115-125	150+	N/A
HAMMERSMITH	60-65	70-95	90-125	110-200	RARE	145-180	155-250	170-300	250+	250+
HAMPTON WICK	55-60	55-75	80-90	90-100	105-110	95-115	130-150	160-180	200+	200+
HENDON	52-63	60-76	72-110	89-145	145-165	85-92	96-189	135-350	195-550	RARE
HIGHGATE	55-62	65-75	75-250	120-550	165-1m	135-375	165-1m	195-1m+	250-1m	260-1m
ISLINGTON	55-65	75-100	90-140	100-175	N/A	125-165	140-180	200-265	300+	RARE
KENSINGTON	65-100	130-200	185-250	230-330	330+	200+	300+	350+	400+	600+
KNIGHTSBRIDGE	85-100	175-250	250-400	350-800	500+	300+	400+	500+	650+	850+
NOTTING HILL	60-65	85-110	110-150	160-200	250-500	135-250	200-300	VARIES ENORMOUSLY ACCORDING TO LOCATION		
PALMERS GREEN	57-65	67-79	80-110	90+	RARE	100-120	125-185	150-300	230+	RARE
PIMLICO	65-85	100-150	125-200	225-300	250+	250+	325-400	325-500	N/A	N/A
ST JOHN'S WOOD	55-60	85-160	160-250	250-400	350+	225+	300+	400+	500+	500+
SHEPHERD'S BUSH	60-68	70-90	85-110	100-135	RARE	110-135	130-200	170-250	220-300	RARE
SOUTH KENSINGTON	60-100	85-175	130-250	200-500	250-600	220-300	250-500	500+	600+	700+
STOKE NEWINGTON	55-60	60-75	70-85	80-100	95-120	90-120	115-130	130-150	145-170	170+
WEMBLEY	55-60	65-68	68-90	85-95	N/A	83-90	95-120	130+	160-200	N/A
WILLESDEN GREEN	55-65	57-80	68-120	80-150	RARE	75-90	90-250	120-400+	175+	200+

# SOUTH OF THE RIVER

OFFICE For catchment areas please see relevant office page	STUDIO FLAT	1 BED FLAT	2 BED FLAT	3 BED FLAT	4 BED FLAT	2 BED HOUSE	3 BED HOUSE	4 BED HOUSE	5 BED HOUSE	6 BED HOUSE
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
BATTERSEA	60-70	70-90	80-130	100-140	115+	110-155	135-170	155-250	200+	230+
BECKENHAM	55-58	63-78	70-140	100-175	N/A	80-90	95-200	160-400	200-500	250+
BLACKHEATH	53-58	65-80	80-100	95-150	120-270	90-110	110-200	160-300	240-450	300+
CATFORD	47-52	54-62	63-72	74-79	N/A	73-78	80-110	115-145	155+	200+
CHISLEHURST	50-55	60-75	75-155	100-200	N/A	65-175	85-210	135-450	250-500	500+
COLLIERS WOOD	53-55	60-65	68-75	70-75	N/A	80-85	95-105	115-125	130-160	N/A
CROYDON	48-55	55-60	64-75	70-80	N/A	62-72	75-85	120+	150+	170+
DULWICH	45-50	55-65	62-75	70-85	N/A	70-85	90-115	120-175	200+	N/A
KENNINGTON	50-60	60-75	70-95	95-125	N/A	85-100	95-130	120-170	150-300	250+
MORDEN	56-58	61-65	65-72	N/A	N/A	69-72	75-110	130-180	135-175	N/A
NEW MALDEN	55-60	65-75	70-110	77-150	90-220	72-95	85-300	120+	160+	250+
NORWOOD	50-55	58-65	70-75	85	N/A	80	105-125	145	160	175
PUTNEY	55-65	85-115	100-190	120-250	160-400	125-150	150-195	220-300	400-600	550+
SHEEN	60-65	70-80	90-100	100-120	N/A	135-145	155-180	240-300	400-600	600-1m
SIDCUP	55-60	57-65	63-95	75-95	N/A	68-85	80-135	110+	140+	300+ RARE
STREATHAM	50-55	58-70	70-85	80-95	N/A	95-120 RARE	100-130	130-160	160-250	
SYDENHAM	50-55	57-62	60-70	65-75	RARE	70-80	78-100	110-140	140+	200+
TOOTING	52-58	60-75	80-110	85-115	N/A	80-92	90-145	125-180	225-300	300+
TWICKENHAM	65-70	70-85	85-120	100-150	135-140	110-130	125-175	200+	300+	400+
WORCESTER PARK	45-50	52-70	65-85	85-110	N/A	72-78	82-170	150-220	225-300	300+

**COMMENTS:** London has so many different types of housing in such varied conditions that any "average" price assessments must clearly be taken as a very general guide and you will always find examples of cheaper and more expensive properties within each category. Central London residential property, in particular, is vulnerable to enormous price fluctuations according to particular street location, floor level and length of lease (for flats) or type of building (period/well run p/b block, etc). In all areas, you will find the price range increases greatly in the more expensive brackets — gardens, garages, location all have to be taken into account.

# THE ESSENTIAL GUIDE TO PROPERTY IN SOUTH LONDON

Barnard Marcus  
786 6886  
Bells 223 9627  
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228 0023  
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Douglas & Gordon  
720 8077  
John G Dean 228 1850  
Edwin Evans 228 0651  
Hamptons  
585 1915  
Hitchcocks 924 3130  
John Hollingsworth  
350 1300  
Kenwood 223 2252  
Prudential 924 3344  
Sturgis 228 8895  
Winkworth 228 9256  
John D Wood 228 0174

Richard Barlow  
789 5242  
Allan Fuller  
788 8822  
Hamptons Dixon Porter  
788 0034  
Hugh Henry 789 7177  
Latham 789 5014  
Sturgis 789 2124

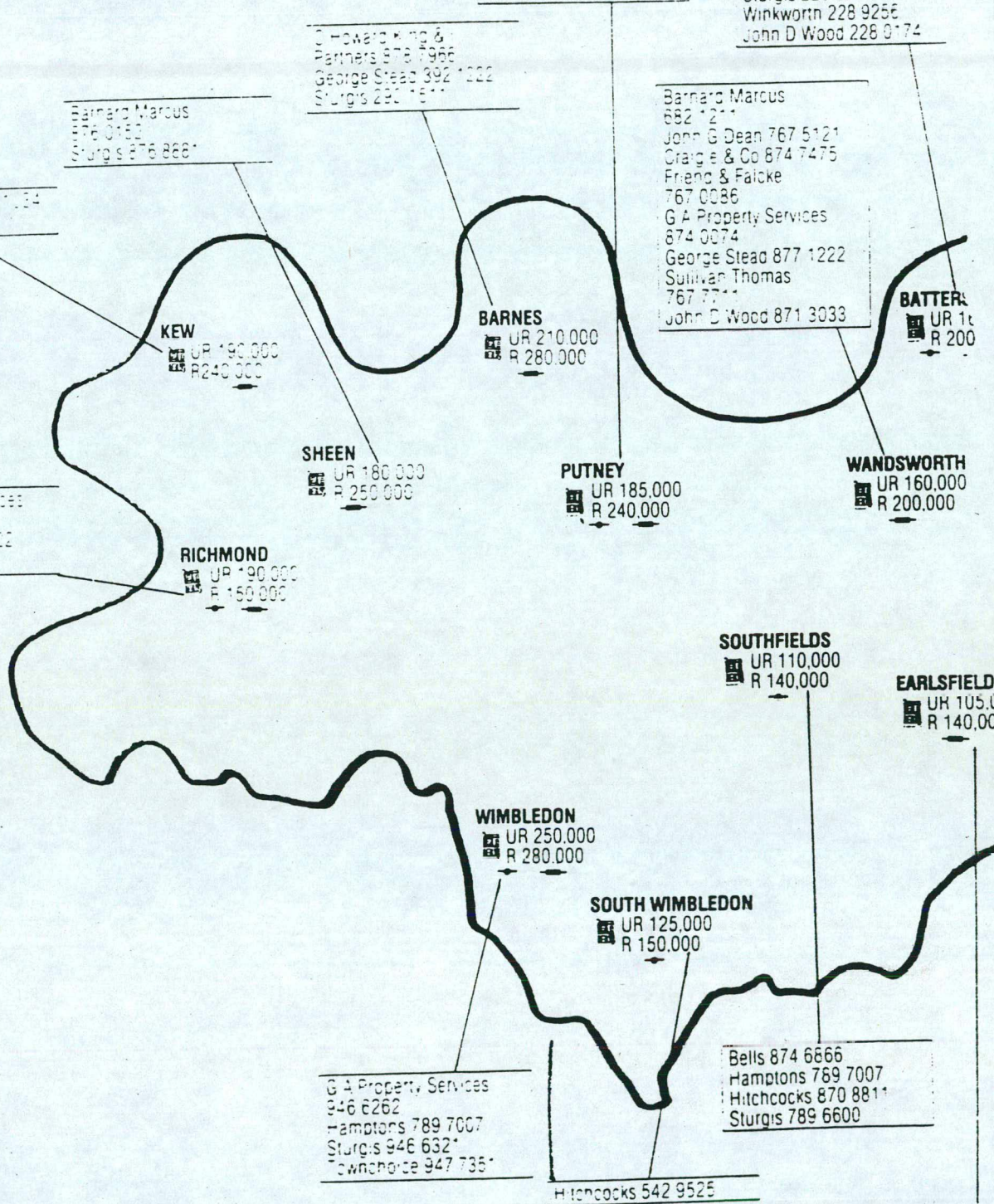
Howard King &  
Partners 878 1966  
George Stead 392 1222  
Sturgis 292 1511

Barnard Marcus  
786 3152  
Sturgis 876 8881

W Hallett & Co 940 1134  
Sturgis 940 2011

Barnard Marcus  
682 1211  
John G Dean 767 5121  
Craig & Co 874 7475  
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767 0086  
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874 0074  
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G A Property Services  
940 7155  
Shaw & Co 948 1122  
Sturgis 948 6133



**KEW**  
UR 190,000  
R 240,000

**BARNES**  
UR 210,000  
R 280,000

**BATTERSEA**  
UR 110,000  
R 200,000

**SHEEN**  
UR 180,000  
R 250,000

**PUTNEY**  
UR 185,000  
R 240,000

**WANDSWORTH**  
UR 160,000  
R 200,000

**RICHMOND**  
UR 190,000  
R 150,000

**SOUTHFIELDS**  
UR 110,000  
R 140,000

**EARLSFIELD**  
UR 105,000  
R 140,000

**WIMBLEDON**  
UR 250,000  
R 280,000

**SOUTH WIMBLEDON**  
UR 125,000  
R 150,000

G A Property Services  
946 6262  
Hamptons 789 7007  
Sturgis 946 6321  
Townchoice 947 7351

Bells 874 6866  
Hamptons 789 7007  
Hitchcocks 870 8811  
Sturgis 789 6600

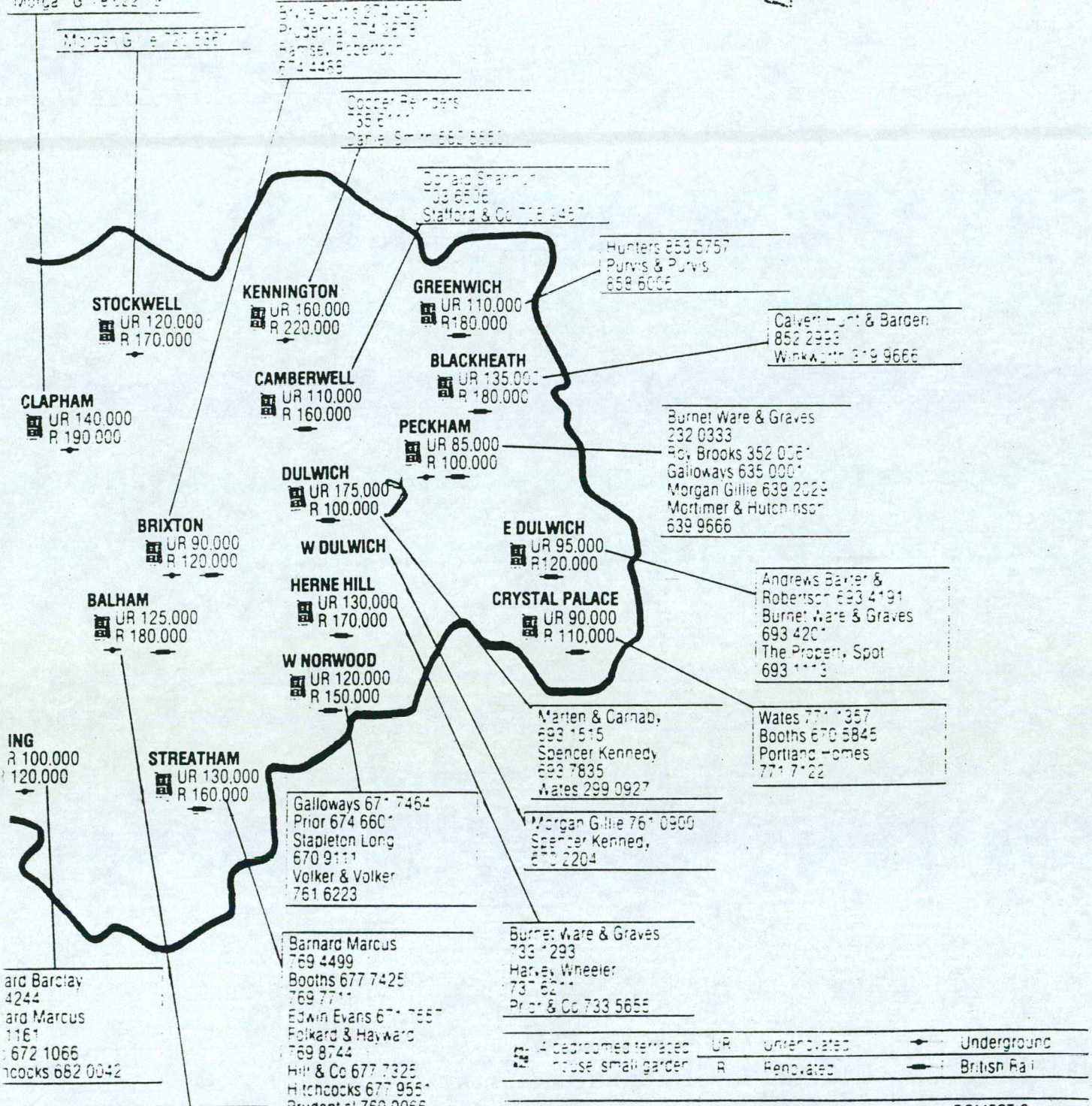
Hitchcocks 542 9525

Comptons 871 9988  
Hitchcocks 947 8377



Whether you are buying or selling, this invaluable map shows you where to look and who to talk to

July 1988



4 bedroom terraced  
 2 bedroom house small garden  
 UR Underdeveloped  
 R Renovated  
 Underground  
 British Rail

RATES	GENERAL	DOMESTIC
ROCHMOND	210.63c	192.13c
LAMBETH	205.5c	187p
WANDSWORTH	149.30c	130.8p
SOUTHWARK	214.18c	196.13p
MEPTON	181.66c	163.16p
GREENWICH	249.18c	230.68p

Morgan Gillie 720 6367  
 Bruce Currie 274 2413  
 Prudential 274 2878  
 Hamse, Robertson 274 4488  
 Copper Builders 738 6111  
 Dana Smith 852 6661  
 Donald Sharplin 733 6606  
 Stafford & Co 708 2457  
 Hunters 853 5757  
 Purvis & Purvis 858 6006  
 Calvert Hunt & Barden 852 2993  
 Winkworth 319 9666  
 Burnet Ware & Graves 232 0333  
 Roy Brooks 352 0067  
 Galloways 635 0007  
 Morgan Gillie 639 2029  
 Mortimer & Hutchinson 639 9666  
 Andrews Barber & Robertson 693 4191  
 Burnet Ware & Graves 693 4207  
 The Property Spot 693 1113  
 Wates 771 1357  
 Booths 670 5845  
 Portland Homes 771 7122  
 Marten & Carnaby 693 1515  
 Spencer Kennedy 693 7835  
 Wates 299 0927  
 Morgan Gillie 761 0900  
 Spencer Kennedy 670 2204  
 Burnet Ware & Graves 733 1293  
 Harvey Wheeler 733 6211  
 Prior & Co 733 5655  
 Richard Barclay 675 6848  
 Bellis 675 2244  
 Capital & Growth 767 7079  
 John G Dean 678 6605  
 Douglas & Gordon 673 6197  
 Reliable 675 6595  
 Vanstones 678 1143  
 Richard Barclay 4244  
 Richard Marcus 1161  
 672 1066  
 100cks 682 0042  
 Barnard Marcus 769 4499  
 Booths 677 7425  
 769 7711  
 Edwin Evans 671 7657  
 Folkard & Hayward 769 8744  
 Hill & Co 677 7325  
 Hitchcocks 677 9557  
 Prudential 769 0066

FROM: S D H SARGENT  
DATE: 31 JANUARY 1989

PCC

*Handwritten notes in red ink:*  
A/GA  
PCC  
SP2 ~  
7:-

cc Mr C D Butler

**PAY IN THE TREASURY**

I attach a note of Sir Peter Middleton's meeting with the Treasury  
FDA on 25 January, which I am about to send to the FDA. Sir Peter  
had intended to refer to the meeting at today's PCC. There will  
of course be a further opportunity to discuss any points arising  
from the meeting at PCC on 7 February.

*Handwritten signature*

S D H SARGENT  
Private Secretary

FROM S D H SARGENT

Date 31 January 1989

NOTE OF A MEETING HELD IN SIR PETER MIDDLETON'S ROOM AT 11.30 ON  
25 JANUARY 1989

Present: Sir Peter Middleton  
Mr C D Butler  
Mr H Evans)  
Mr Holgate) Treasury  
Mr Neilson) FDA

PAY IN THE TREASURY

1. Mr Evans said he was grateful to Sir Peter for seeing the FDA. There were strong feelings among Treasury FDA members, as was demonstrated by the fact that some 143 of them had signed the recent lobbying notes. The points the FDA wished to explore were to what extent management accepted that there was a problem, and how it proposed to address it. He was grateful for the information which EOG had provided on vacancies and resignations etc., but felt that more information was needed about the extent of the recruitment and retention difficulties faced by the Treasury.

2. Mr Evans said that the paper produced by the branch last September on living standards and housing costs clearly demonstrated the extent to which the position faced by Grade 7s in the housing market had deteriorated in recent years. Over the same period there had been an increase in the readiness of outside employers to pay for bright people. The consequences were apparent in the recent resignation rates, most notably for the economists. However the FDA did not want to see a solution which was aimed exclusively at economists. One result of the high resignation rate in the Treasury - which had been commented upon by the TSRB - was widespread concern about the quality of work. The Treasury FDA had two specific proposals for tackling the problem. First, the flexible pay arrangements, which had already

ANNEX  
B

been used to the benefit of tax inspectors and lawyers should be used to move the Grade 7 span up the pay spine for Treasury staff. Second, Grade 7s should be paid adequately for the overtime which they worked. Mr Evans wondered to what the extent the Chancellor was aware of the strength of feeling on these matters within the Treasury.

3. Sir Peter Middleton said that the Chancellor was well aware of the position. He had discussed with the Chancellor the letters he had received from Mr Evans. The points which the FDA had made about recruitment and retention, housing costs and relative pay were ones with which he and the Chancellor were familiar. The ability of the Chancellor and himself as Head of Department to comment would always have to take account of their wider responsibilities for Civil Service pay. Sir Peter Middleton wondered how far Mr Evans suggestions would be acceptable to the FDA nationally; they were unlikely to welcome the idea of different pay rates for different departments. In any event, it would be sensible to await the findings of the levels survey which was now underway; this would provide some evidence on the extent to which there were special problems in London. The problems referred to by the FDA were not confined to the Treasury, and any solution which differentiated between departments would have implications for the coherence of the Civil Service. Mr Butler pointed out that such arrangements would make it much more difficult to continue the interchange of staff with other departments.

4. Mr Evans replied that he was not suggesting that there should be special treatment for the Treasury, but that the Government should recognise that market forces pointed to the need for some staff in the Treasury and elsewhere to receive higher pay. Mr Neilson added that it seemed unlikely that the level survey would properly address the problems faced by the Treasury. It would be better to make use of the flexibility within the existing arrangements without delay. Sir Peter Middleton said that since much of the FDA's case related to the London dimension and applied also to fast stream staff in other departments, it would be better


to wait for the levels survey. He was willing to make as much use as he reasonably could of the flexibility within the pay arrangements, but this was not the same as simply moving all Grade 7s up the pay scale. Mr Holgate said that the FDA proposal would, in fact, be of great help to ATs and HEO(D)s who faced major problems in finding their way into the housing market. The cost would be relatively small as the lower points on the Grade 7 pay scale were already redundant for mainstream staff.

5. Mr Holgate said that he understood that Treasury pay divisions were seeking the views of departments on the present overtime arrangements. He asked whether the domestic Treasury would be pressing the case for reform. Mr Neilson added that it was absurd that, where Grade 7s qualified for payment under the present highly restrictive rules, they only received an hourly rate of £4.18, about half the Grade 7 scale minimum. Mr Butler replied that his feeling was that the 6 week rule should be removed and replaced by a minimum qualification of 10 extra hours per week. He did not however wish to see the Grade 7 turned into another overtime grade.

6 Turning to the question of quality of work, Mr Evans said that perceptions of quality varied according to an individual's place in the hierarchy. There was an effective screening process in the Treasury which meant that, for the most part, only good quality work reached Ministers and senior officials. However, it was the view of many Grade 3s and Grade 5s that they were spending more time on issues which, in the past, would have been dealt with at a lower level. The recent deterioration needed to be arrested quickly if quality of work in the future was to be safeguarded. Sir Peter Middleton commented that he well understood the efforts senior staff made to ensure that quality was maintained. Mr Neilson commented that the problem was not only one of loss of high quality staff, but also the loss of experience and collective memory in key areas of the Treasury. Mr Butler replied that he did not accept that there had been any decline in the absolute quality of Treasury staff, but he accepted that experience levels

were low, not simply because of resignations but also because there had been a good number of promotions and also of secondments.

7. Sir Peter Middleton said that he was glad to have had the opportunity to talk to the Treasury FDA. Senior management was very conscious of the problems faced by Grade 7s and others, especially in the housing market. He would reflect, on the points that had been made and discuss them with the Chancellor. If the FDA wished to make direct representations to the Chancellor he was sure that this could be arranged. Mr Evans said that the FDA were also grateful for the opportunity to set out their views. They would welcome the opportunity to talk to the Chancellor. They would also find it helpful if Treasury management would set out in writing its views on the points raised by the FDA. Sir Peter Middleton said that he was reluctant to respond in writing. The danger of a prolonged correspondence was that both sides were liable to find themselves taking up entrenched positions.



**S D H SARGENT**  
Private Secretary

cc Those present  
PPS  
PS/PMG  
PCC  
Mr C W Kelly  
Mr C C Allan  
Mrs Dunn

## ANNEX D

## KEY STATISTICS

1. Resignation Rates for Grades 5 and 7, AT/HEOD and EA/SEA in HM Treasury 1984-88

	1984(percent of staff in post)	1985(%sip)	1986(%sip)	1987(%sip)	1988(%sip)
unified G5	2 ( 3)	3 ( 5)	3 ( 5)	2 ( 3)	2 ( 3)
unified G7	11 ( 5)	15 ( 6)	12 ( 5)	18 ( 8)	18 ( 7)
faststream G5	1 ( 4)	1 ( 4)	1 ( 3)	1 ( 3)	2 ( 7)
faststream G7	2 ( 5)	2 ( 5)	5 (13)	3 ( 9)	2 ( 6)
economist G5	0	1 (10)	0	1 ( 9)	0
economist G7	4 (12)	2 ( 6)	5 (14)	11 (31)	13 (43)
AT/HEOD	0	3 (15)	3 (15)	3 (15)	2 (10)
EA/SEA	4 (14)	4 (14)	5 (17)	6 (21)	12 (41)

Note

Figures based on the departmental staff record and the Economist Group management database.

2. Comparison with other departments (1988 figures)

Resignations as a Percentage of sip	Unified G5	Unified G7	Fast-stream G5	Fast-stream G7
Inland Revenue	6	7	0 (6 in 1987)	11
DTI	0 (3 in 1987)	1	5	6
DOE	2	2	4	5
Cabinet Office	5	3	0	0
Customms	3	3	0	4
MOD	2	1	2	2
DES	2	0 (1 in 1987)	0	0
DEn	6	3	n/a	n/a
Others	1	1	n/a	n/a
<b>TOTAL</b>	<b>2</b>	<b>2</b>	<b>n/a</b>	<b>n/a</b>

3. NOTE

The statistics quoted in FDA letter (from TSRB report, macro-economist resignations broadly correct (and consistent with figures above).

ANNEX  
D

EXTRACT FROM THE NEW PAY ARRANGEMENTS FOR GRADES 5, 6 AND 7

**Flexibility  
payments**

—recruitment  
and retention  
difficulties  
— by function,  
skills or location

**Flexibility**

15. In addition to the performance criteria described in Clauses 11, 12, 13 above, range and scale points may also be used for other purposes. Where, for example, particular and special difficulties of recruitment and/or retention arise they may be dealt with by identifying the group of posts concerned, on the basis of function or the skills required or their location, and advancing pay for the staff occupying them by movement up the spine. Their pay scale will be adjusted accordingly after negotiation.

ANNEX  
E



2 November 1988

Ms Seamen

Mr De Berker

Mr Price

Mr Leniston

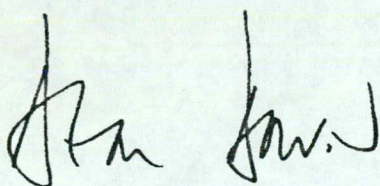
Mr Cropper

Mr Tyrie

Mr Call

Treasury Chambers, Parliament Street, SW1P 3AG  
01-270 3000

Rt Hon Lord Young of Graffham MP  
Secretary of State for Trade  
and Industry  
Department of Trade and Industry  
1-19 Victoria Street  
LONDON  
SW1H 0ET



1988-89 PAY

I usually write to you and colleagues at the beginning of the new pay round, setting out my thoughts on the handling of pay issues.

This year's letter is by no means a formality. The latest figures for average earnings show an underlying annual increase of 9½ per cent over the twelve months to August. With the Tax and Price Index (TPI) up less than 4 per cent over the same period, average take-home pay has been rising at over 5 per cent in real terms. Unit wage and salary costs in manufacturing have begun to edge up again, by about ¾ per cent in the year to August, faster than the average of our other major competitors, while outside manufacturing the rise has been considerably greater. Employers must have regard to what their overseas competitors are paying, and we must make it quite clear to them that the Government will not bail them out by allowing the exchange rate to depreciate, if they fail to curb their costs.

Of course, in the coming pay round there are bound to be claims that the latest figures for the RPI justify higher pay settlements. We must rebut these arguments. The increase in inflation will be temporary, and is due in large part to the effect of including mortgage interest rates in the RPI. It should not be allowed to affect the level of wages permanently, by being incorporated in excessive settlements. There can, in any case, never be any justification for a given level of pay increase regardless of the circumstances. We must attack the lingering attachment to the concept of a "going rate".



If we are to do this effectively, however, our own house must be in order. This means that we must continue to exercise firm control over the negotiations under our direct influence. We must impress upon the Review Bodies the case for restraint, and if their recommendations are excessive, we must consider abating or staging them. Secondly, we must press ahead with reform of formula-based pay arrangements. Finally, we must build on the significant progress we have made in the last year in introducing performance pay systems and greater regional variation for our own employees, and encourage the introduction of market sensitive pay systems in the public trading sector as well. The advantages in terms of recruitment and retention are clear, and the alternative of across the board pay increases is unnecessary and expensive.

In this context, it is clearly essential that our internal arrangements for considering pay proposals work effectively. I should be grateful if colleagues in charge of departments sponsoring public trading sector organisations would ensure that their Chairmen give seven working days notice of pay proposals, so that they can be considered properly by both Departmental Ministers and the Chief Secretary. Given the complexity of many proposals, and the very short time we have to consider them, I should also be grateful if colleagues could summarise the impact of pay proposals on average earnings in both the first year and in a full year, and also on the pay bill - again on both a first and full year basis.

I am copying this letter to the Prime Minister, other Members of Cabinet, and to Sir Robin Butler.



NIGEL LAWSON

put back in

<b>CH/EXCHEQUER</b>	
REC.	14 NOV 1988
ACTION	MR KELLY ✓ 14/11
COPIES TO	CST, PMG SER P MEDDLETON
	SER T BURUS DAME A MUELLER MR ANDREW MR AJC EDWARDS
MO	5/24 MS SEAMEN, MR DE BERKER MRS CHAPLIN



MINISTRY OF DEFENCE WHITEHALL LONDON SW1 2HB

TELEPHONE 01-218 9000

DIRECT DIALLING 01-218 2111/3

14 November 1988

Dear Nigel,

*V. H. H. ...  
I agree so with letter  
we can have  
a collective  
discussion  
after ...  
supports ...  
(so far as ...  
know) to ...  
absent ...  
great  
desire  
...  
...  
collaboration*

1988-89 PAY

Thank you for sending me a copy of your letter of 2nd November to David Young.

I agree with the approach to the 1988-89 pay round that you have proposed. I also very much agree with your point that it is important that we ensure that our internal arrangements for considering pay proposals work effectively. On this point, I would welcome an opportunity for a collective discussion on our future strategy in regard to Civil Service pay.

My reason for this proposal is by no means that I disagree with the thrust of recent Civil Service pay developments. I very much welcome the recent pay agreement that has been reached with the IPCS, and I believe that Treasury officials are to be congratulated on this achievement. But I am conscious of a great deal of dissatisfaction about pay among our civilian staff, and in many areas the problems which spring from this are growing steadily worse. They stand to be aggravated moreover by the current demographic trend, with over a million fewer 16-19 year olds coming into the labour market in the mid-1990s. I am doubtful whether from a pay point of view the Civil Service is in good shape at present to meet this

The Rt Hon Nigel Lawson MP

I/EXCHEQUER	
REC.	8 NOV 1988
ACTION	MR KELLY
YES	CST, PING
NO	SER P MIDDLETON
	SER T RUBENS
	DAVE A MUELLER
	MR ANSON
	MR AJC EDWARDS
From the Private Secretary	
MS SEAMEN, MR DE GERKER	
MRS CHAPLIN	

CONFIDENTIAL



-8/11

1. Alex  
2. pup

10 DOWNING STREET  
LONDON SW1A 2AA

7 November 1988

Dear Alex,

1988-89 PAY

The Prime Minister has seen the Chancellor's letter of 2 November to the Secretary of State for Trade and Industry. She endorses the approach to the 1988-89 pay round that the Chancellor proposes.

I am copying this letter to the Private Secretaries to members of the Cabinet and to Trevor Woolley.

Yours,  
Paul

PAUL GRAY

A. C. S. Allan, Esq,  
HM Treasury

CONFIDENTIAL

GRAY  
→  
ALLAN  
7/11



situation. I am also not totally confident that the various elements of our policy in regard to Civil Service pay fit together as a coherent strategy either in themselves, or in relation to what is happening to other parts of the public sector; in the Ministry of Defence, for example, the Armed Forces with their different pay regime co-exist with a quarter of the entire Civil Service, and substantial numbers of police and teachers, all of whom have been accorded notably different treatment in pay terms in recent years. We badly need a more coherent strategy to resolve or at least explain the significant differences, not merely to the staff themselves but also to their senior line managers who are having to cope with the practical results.

I welcome the selectivity which is a feature of recent pay agreements. But I do not think that in developing this policy we should allow ourselves to be unduly constrained by the views of some Civil Service Unions which are irresponsible and largely unrepresentative. We need an agreed management policy on Civil Service pay which can then be developed in consultation but not necessarily in agreement with the Trade Unions.

I share your doubts about the concept of a "going rate"; such a concept is plainly incompatible with selectivity. Nevertheless it must be accepted that in relation to some areas and some staff there is a "going rate" in the sense that if an employer does not pay it his staff go. We are now in that situation in regard to clerical and secretarial staff in Central London. This time last year the Department had 428 clerical vacancies in Central London. We have now got 670 such vacancies. In the last twelve months we have lost, through resignation and retirement, 107 Personal Secretaries and 82 Typists; in the same period we have managed to recruit only 12 Personal Secretaries and 9 Typists. It is becoming increasingly difficult to get routine work done with shortages of this order, and



security standards are becoming threatened. We have substantial relocation plans, and we make extensive use of agency staff - to whom we pay more than our own staff. But our problems are growing nevertheless. This is merely one of a number of specific problems that are growing rapidly worse because our rates of pay are well below those available in the private sector. Another example concerns craftsmen, especially in the South-East, where the rates of pay we can offer are sometimes no more than those paid by others to unskilled employees. The resultant staff shortages, as well as the sense of unfairness felt by the staff who do remain, damage efficiency and impose costs which I suspect we do not always recognise.

Finally, while I endorse your proposed approach to the 1988-89 pay round, I hope that this will not lead to unreal assumptions being made in our forward estimates about Civil Service pay. We are finding increasing difficulty in reconciling realistic pay increases under the new pay agreements, plus the special measures needed to alleviate particular shortages, with running cost targets.

I think it would be helpful to have a collective discussion of issues like these.

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

Yours truly,  
*George*  
George Younger

# dti

the department for Enterprise

*plattau  
pps at x*

*BF 18/11*

CONFIDENTIAL

The Rt. Hon. Lord Young of Graffham  
Secretary of State for Trade and Industry

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

CH/EXCHEQUER	
REC.	15 NOV 1988
ACTION	MR KELLY <i>v15/11</i>
COPIES TO	CST, PMG
	SIR P MIDDLETON
	SIR T BURNS
	DAME A MUELLETZ
	MR ANSON, MR EDWARDS, MR SEAMEN, MR DE BERKER, MRS CHAPLIN

Department of Trade and Industry

1-19 Victoria Street  
London SW1H 0ET

Switchboard  
01-215 7877

Telex 8811074/5 DTHQ G  
Fax 01-222 2629

Direct line 215 5422  
Our ref DWLASL  
Your ref  
Date 15 November 1988

*Nigel,*  
1988-89 PAY

*✓*

*mp*

Thank you for your letter of 2 November. I share your concern at effects high rises in average earnings may have on competitiveness. While some firms may argue that their earnings increases are acceptable because offset by productivity growth, the concept of a going rate still lingers sufficiently strongly to push earnings ahead of productivity growth elsewhere. And we are still a long way from general recognition that productivity gains should be used not merely to maintain but to improve competitiveness.

Turning to my Department's specific public trading sector responsibilities, the British Steel Corporation will shortly cease to be in the public sector, and British Shipbuilders will have little remaining presence.

You will know from John Major's recent correspondence with Tony Newton of the Post Office's proposals on regional pay variation for the Letters business, on which negotiations are now taking place. The Post Office face a difficult task, but success would provide a useful precedent for the extension of regional pay elsewhere in the Post Office and, indeed, the economy.

We have emphasised to the Post Office that any extra payment should if possible be graduated according to the degree of recruitment and retention difficulty in particular district offices and that any scheme must be self financing from 1989/90 onwards. We have also made it clear to Sir Bryan Nicholson that we remain to be convinced of his view that Post Office pay rates are becoming increasingly uncompetitive

L YOUNG  
TO  
CX  
15 NOV



the department for Enterprise

across the board and that we will wish to look closely at the pay assumptions which the Post Office incorporates in the 1989 Corporate Plan. We shall ensure that Chairmen are reminded as appropriate of the points you made about procedure.

I am copying this letter to the Prime Minister, other Members of the Cabinet and to Sir Robin Butler.

*Carli  
David*





FROM: MISS M P WALLACE  
DATE: 17 November 1988

MS SEAMMEN

cc PS/Chief Secretary  
PS/Paymaster General  
Sir P Middleton  
Sir T Burns  
Dame A Mueller  
Mr Anson  
Mr Monck  
Mr Kelley  
Mr A J C Edwards  
Mr De Berker  
Mrs Chaplin

1988-89 PAY

The Chancellor has seen Mr Younger's letter of 14 November. The Chancellor does not believe we need a collective discussion, as Mr Younger suggests, given the Prime Minister's clear views, and the absence of any great desire on the part of other colleagues.

2. He would be grateful for a draft reply in due course.

A handwritten signature in black ink, appearing to be "M P Wallace".

MOIRA WALLACE

WALLACE  
TO  
SEAMMEN  
17 NOV



CH/EXCHEQUER	
NO	21 NOV 1988
ADDRESSEE	MR KELLY
ADDRESSES TO	CST, PM G SIR P MIDDLETON SIRT BURNS, DAVID A MULLER MR ANSON, MR EDWARDS, MS SEARFELD, MR De BERTER
From the Principal Private Secretary MRS CHARLIS	

✓ 21/11

10 DOWNING STREET  
LONDON SW1A 2AA

BF 21/11  
BF 6/12  
13/12

21 November, 1988.

*John Allen*

CIVIL SERVICE PAY

Ch  
NOT inconsistent with  
what you & Peter had  
already agreed to do.  
RSL: AA

The Prime Minister would like to discuss with the Chancellor of the Exchequer some of the issues raised in the Defence Secretary's letter of 14 November about Civil Service pay.

The Prime Minister has noted the Defence Secretary's point about the difficulty of recruiting certain Civil Service grades, especially in central London. She understands that the Treasury is considering proposals to meet this problem, and would like to discuss them with the Chancellor and the Head of the Civil Service before there is any collective consideration. As a basis for their discussion, she would be grateful if the Treasury could provide a note of their assessment of the recruitment situation in London and of the other issues raised in the Defence Secretary's letter, together with an indication of, if anything, what needs to be done.

I am copying this letter to Sir Robin Butler.

*Nigel Wicks*

N.L. Wicks

NICKS TO ALLAN 21 NOV

Alex Allan, Esq.,  
HM Treasury.

CONFIDENTIAL

*BF*

FROM: MS D J SEAMMEN

DATE: 1 December 1988

1. MR KELLY ✓

*2. Dame Anne Kelly ✓ 12/12  
3. Sir Peter Middleton ✓  
Em*

cc

Chief Secretary  
Paymaster General  
Sir P Middleton  
Mr Anson  
Dame Anne Mueller  
Mr Phillips  
Mr Luce  
Mr Chivers  
Mr Graham  
Mrs Harrop  
Mr Bell

2. CHANCELLOR

*[took some time to reach us because  
of complicated routing!]*

*Ah  
OK (as amended)?*

*OK - as asked by  
you Anne!*

CIVIL SERVICE PAY

The No 10 letter of 21 November asked for a Treasury note on 'the difficulty of recruiting certain civil service grades, especially in central London', as expressed in Mr Younger's letter of 14 November. The note is intended for a bilateral, with Sir Robin Butler, before any collective consideration as requested by Mr Younger.

*ie you,  
PI FERB*

2. I attach a note, and a covering minute to the Prime Minister.

Tactics

3. This will need careful handling. It is not unreasonable for colleagues to ask for collective consideration. We expect to be consulted about their (nationalised industry) negotiations. But it would be better to avoid it if we can. It would only be an opportunity for colleagues to plead their own hard cases and endanger running cost limits. If you can satisfy the Prime Minister that our pay policy is on the right course, then she may feel there is no need for further discussion.

4. We also need to avoid any premature reactions from the Prime Minister which would make the implementation of our policy more difficult.

CONFIDENTIAL

*12/12*

5. In particular, we want the ability to conclude long term pay agreements now in negotiation with NUCPS and CPSA - so long as they meet our objectives at reasonable and affordable cost. We must also avoid any statements on freedoms and flexibilities which would compromise our policy on agencies of allowing pay freedoms only on a case by case basis. (The recent experience on NHS pay is a warning.)

6. The objective therefore would be to make the Prime Minister feel comfortable with what we are doing, and in particular to convince her that flexible pay agreements can deliver the goods within an appropriate framework of control.

London

7. We are, and have been for some time acutely conscious of the London problem. We have three instruments at our disposal

- (a) London Weighting - increased by 14% in July;
- (b) movements on the pay spine under flexible pay agreements - used for the first time in the IPCS levels survey settlement;
- (c) local pay additions, introduced this year with a ceiling of £600 p.a. (£700 p.a. for typists in Inner London).

Our strategy for combining their use is clear. There is no point in using a highly selective instrument where there is a general problem. On the other hand, London Weighting is so blunt an instrument - payable to all grades below Grade 3 at the same rates - as to be largely outmoded. Thus for London, for the present, we are looking initially to spine movements, which can be differentiated by grade and, if appropriate, by discipline. That would leave local pay additions as a highly targeted instrument available either to top up in London on special problems, or to address particular difficulties of recruitment and retention

outside the London area. The outcome might then be to freeze the remaining instrument, London Weighting (although we might still want a modest increase next year, depending on circumstances at the time).

8. This strategy will work quite nicely if we get an agreement with NUCPS. We hope as part of such an agreement to give extra money to the executive grades in London from April, subject to costs. It does not depend on getting an agreement with CPSA, since we can continue to use local pay additions for their clerical and secretarial grades.

9. The union dimension is reasonably straightforward. It will be the unions' aim next year to achieve another big increase in London Weighting. But we shall resist and hope to pre-empt by building in a London spine point or points from April in an NUCPS and perhaps CPSA flexible pay agreement.

#### Conclusions

10. The draft minute attached tries to encapsulate our wider pay policy. It contains a dig at Mr Younger, whose problems in perceiving consistency in that policy are of his own making; if he must maintain comparability for the Armed Forces, no wonder his civil servants who work alongside feel hard done by.

11. More generally, the ratcheting down of civil service pay since 1982 helped with controlling running costs, but will have left many unhappy. New flexibilities will pose difficult problems of adjustment. The pay determination arrangements of the new pay agreements, with pay increases contained within the interquartile range of private sector pay movements, ought to provide reassurance to both sides.



MS D J SEAMMEN

CONFIDENTIAL

DRAFT MINUTE TO: PRIME MINISTER

FROM: CHANCELLOR

CIVIL SERVICE PAY

*You already mentioned in previous meeting that*  
1. ~~In response to~~ Nigel Wicks' letter of 21 November, I attach a note ~~for discussion..~~ *on Civil Service pay, and on recruitment and retention in London. You requested this is*

2. *flexibility* to respond to ~~the~~ market *pressures by making appropriate* in terms of payment for performance and for scarce skills, in the areas where we need them, ~~is the keystone of our policy as employer.~~ We need also to urge ~~its~~ *the* advantages *of flexibility* on review bodies (including the Armed Forces Review Body) and in relation to other public sector employees, including firemen, teachers and the police. We shall only be open to accusations of inconsistency, as George Younger suggested, if we continue to maintain outdated notions of comparability for ~~some~~ *particular categories of* public servants,

3. For Civil Service pay, the recent IPSC settlement shows that we can use long term flexible pay agreements to achieve the results we need - responding to difficulties of recruitment and retention without resorting to unacceptably expensive across-the-board increases. This is the way we must go - *if possible* in agreement with the Civil Service unions if we can get it on our terms, but if necessary without such agreement.

The keystone of our policy as an employer is

4. I recognise that some departments <sup>do</sup> have difficulties in retaining staff, especially in London and the South East. We have introduced local pay additions this year, and are looking at the future of such additions and of London Weighting in the context of possible agreements on long term pay covering the executive, clerical and secretarial grades. The TSRB is, ~~we~~ understand, likely to recommend a London allowance for Grade 3 of £2,000.

5. There is of course a limit to what we can afford by way of Civil Service pay increases, however well targeted. Departments must be clear about their priorities within their running cost limits, and make realistic assumptions about pay increases when deciding how to budget within those limits. All departments <sup>must</sup> need <sup>also</sup> to address the question of relocation outside London ~~very~~ very seriously.

6. I am copying this minute to Sir Robin Butler.

NL

CIVIL SERVICE PAY: NOTE BY TREASURY OFFICIALS

*MS* Civil service pay is based on the need to recruit, retain and motivate sufficient staff of adequate calibre, within what can be afforded. It is not directly related to the salaries paid by other employers, or to the cost of living, but both ~~can~~ <sup>are</sup> of course ~~be~~ relevant indirectly as they can affect recruitment and retention.

2. Recruitment and retention difficulties are not always due to pay. They can reflect non-pay benefits offered by competing employers, and also factors specific to the particular civil service establishment - for example, the nature of the work, the promotion prospects, the state of management, the exact location of the office. Thus the existence of a recruitment or retention problem does not necessarily point to a pay increase - and certainly not an across-the-board one.

**THE EVIDENCE**

3. Data on non-industrial civil service resignations show that the rate is significantly higher in London and the South East of England than in the rest of the country. Annex A illustrates the overall picture. The figures are, as might be expected, higher at the more junior grades, and the contrast between the South East and elsewhere is most marked for these grades, although it also appears at more senior levels.

4. The position on recruitment is more difficult to analyse because recruitment at more junior levels is done by Departments themselves, while the Civil Service Commission do most recruitment at and above EO levels. However, there appears to be the same contrast between London and the South East, and the rest of the country. As for higher grades, the Civil Service Commission's



annual report for 1988 says:

"A persistent problem, across all our recruitment, has been to fill vacancies in London and the South East."

A broadly similar pattern appears with industrial craftsmen.

X  
5. These results are not surprising when the evidence on the regional economy is considered. North/South contrasts in unemployment rates, average earnings and house prices have all been ~~diverging~~ <sup>diverging</sup> in recent years. This obviously has an effect on large organisations like the civil service with a mainly national pay structure.

6. However, this overall picture conceals further variations. An inter-departmental working party on geographical pay, which reported in February 1987, found wide variations between Departments and towns - and indeed between different offices of the same Department in the same town. These differences appeared inside and outside the South East of England. The area with the most serious problems extended beyond London itself, to include a South East zone, with a boundary a little outside the M25, with extensions along the M3/M4 corridor. This zone contained the most seriously affected areas - although the position was patchy even within it, and there were pockets elsewhere with severe problems.

7. Recent evidence has broadly confirmed both the definition of the zone and the variations within it. But there are also signs of stress outside the South East; in particular, difficulties are increasing in parts of East Anglia, especially in Cambridgeshire, and parts of the South West.

#### FUTURE TRENDS

X  
8. On the demand side, a key factor is relocation to other parts of the country. The relative positions of the North and South, and the growing sophistication of technological links point to moving much work as possible out of London. <sup>and No South East</sup> At present there are

about 115,000 non-industrial civil servants in London (about 23 per cent of the service-wide total), and a further 80,000 in the rest of the South East (16 per cent). Decisions about relocation are taken by Departmental Ministers, taking account of analysis of the costs and benefits. The benefits already include items such as savings in office rent and London Weighting; if pay in the South East is further increased, this will add to the advantage of moving. The easier availability of good quality junior staff is a further important advantage even if less easy to quantify. But although the numbers of civil servants needed in and around London should decline as a result of the relocation policy, the effects will take time to appear. It will continue to be important to attract and retain sufficient staff of adequate calibre.

9. On the supply side, the number of school leavers will continue to decline for some years. This effect is more marked in the South East than in most other regions, although it should be offset to some extent by a continuing rise in activity rates, especially among women.

10. The behaviour of other employers is hard to predict. Polarisation of pay between London and the South East, and the rest of the country, <sup>is</sup> increasingly evident partly due to the concentration of relatively high paid jobs in the South East. For instance the financial sector is the leader in increasing London Weighting; figures of £3,000 are not uncommon in this sector, as compared with a median of about £1,600. Some employers are finding the labour market situation in the South East so difficult that they are considering relocation. But there is also some tendency to move to less expensive parts of London and the South East, rather than right out of the region. The opening of the Channel Tunnel, combined with the European market in 1992, is likely to further stimulate employment in the South East.

#### EFFECTS ON THE WORK OF DEPARTMENTS

11. There is no rule to determine what overall level of turnover is wasteful. For example, high wastage of cleaners probably matters little as long as vacancies can be filled; but a much

lower level for tax inspectors, for example, may be serious because of the investment in training and the experience needed to do the job effectively. Even at AO level, the extent to which high turnover matters depends on the type of work.

12. Nor are the carrying of vacancies and frequent recruitment exercises necessarily inefficient. Complement figures are unreliable guides to actual needs, and a few vacancies can lead to greater concentration on the work with highest priority and greater efficiency. Recruitment exercises are time-consuming and expensive, but are not wasteful if they attract candidates of the right calibre at a relatively low salary.

13. However, there comes a stage where high levels of resignations, problems of recruitment and continuing vacancies causes real inefficiencies and costs. Departments consider that this point has been reached in a number of offices in and around London. They report that the quality of new recruits is often low, and that there are genuine vacancies which have to be carried for long periods, to the detriment of the departments' functions and the moral of other civil servants.

14. The high cost of housing is often identified as a particular cause of resignations. The availability of jobs offering not only higher pay but also help with housing costs is a cause of resignations, in particular among people whose skills make them attractive to the financial sector. The high cost of rented accommodation, even of very basic quality, makes it very difficult to attract young people from the less prosperous parts of the country who would otherwise be willing to come to London to work. It is also becoming more difficult for management to persuade staff to move into and out of London. Help with relocation is available, but does not necessarily reflect the full difference in house prices. Mobility, which can be important for management purposes (and to ease the problems in the South East), can be difficult to achieve.

## ACTION

15. Overall, the labour market in the South East is likely to remain tight. The problems faced by departments in and around London are severe enough to justify action, including measures on the pay front. However, the nature and extent of the problem varies by Department and location. These variations will continue, but not necessarily in the same form as at present. The action therefore needs to be flexible, able to discriminate between varying needs and to respond quickly to changing circumstances.

16. On the pay front, the following mechanisms are available:-

- i. London Weighting. There are three zones. Payments are the same for all staff up to and including Grade 4, apart from those under 18 who receive a lower rate. Current rates are:-

	Adults	Under 18
Inner London	£1750	£1313
Intermediate London	£1000	£ 700
Outer London	£ 725	£ 544

These rates include 1988 increases of about 14% - well above the percentage increase in other civil service pay rates.

- ii. Local Pay Additions (LPAs), introduced from July this year, are payments of up to £600 p.a. (£700 for secretarial group in Inner London) to groups of staff with recruitment and retention problems. Unlike London Weighting they can vary according to Department, location, grade and seniority in the grade. Most payments are to staff in the clerical and secretarial groups and to EOs within the South East zone. Proposals are made by individual Departments

and approved by the Treasury following local consultation.

iii. Special Pay Additions can be made to groups of staff with particular recruitment and retention problems. There is no formal upper limit but a very strong case has to be made. The SPA applying to secretarial staff in Inner London has now been converted to an LPA. Other SPAs have mainly been for specialised groups of staff, including industrial staff, usually at particular establishments in the South East of England including for instance Aldermaston Atomic Weapons Establishment. Some of these are being subsumed within basic pay scales as part of the flexible pay agreements.

iv. Movements under the flexible pay agreements

There are at present three long-term pay agreements which provide for variations in pay according to location. They cover staff represented by the IPCS and IRSF, and Grades 5-7. The very recent settlement following the IPCS levels survey gave an extra spine point for all staff in London, and the Grades 5-7 agreement is starting to be used to give extra for particular specialisms in London eg fully trained Inspectors of Taxes. Possible agreements of a similar type are being discussed with NUCPS and the CPSA.

17. There are also non-pay measures; in particular, there is a relocation package, which includes provision for an on-going allowance to help with cost of buying a house in a more expensive area (but not when moving to a cheaper one), and an advance of 6-months salary. Other measures include detached duty, to assist people moving location on a temporary basis for managerial reasons. In general the civil service does not provide its staff with financial help for housing. But there are arrangements to give interest-free loans for season tickets, which are particularly important in and around London.

18. There are cost constraints on what more we can do for London, without imposing unsustainable pressures on the civil service paybill and hence on departmental running costs.

19. The recent IPCS settlement will cost over 6 per cent in a full year, though part of that cost will be offset against the August 1989 settlement. The full impact of the 14 per cent increase in London Weighting from July 1988 will be felt by departments in 1989-90, and the unions will be looking for a further increase from April 1989. Local pay additions already cost some £25 million a year. We will have to deal with a settlement for Grades 5-7 and for Inland Revenue staff from August 1989 which will be informed by surveys of pay levels outside the public services sector. In negotiations on flexible pay agreements, NUCPS and CPSA will have very much in mind that previous such agreements have given staged increases of up to 7 per cent per annum at a time when the immediate outlook for inflation was more favourable than now.

#### **RECOMMENDATIONS**

20. The Treasury has been discussing these problems with departments in a working group, which will produce its final report shortly. While the detail of its recommendations is yet to be finalised, the main direction of our policy is clear.

21. Departments are agreed that a flexible pay policy is needed to deal with the special problems of London and some parts of the South East. London Weighting is too inflexible an instrument to address these problems. A combination of use of the provisions of flexible pay agreements, and local pay additions, provides a more targeted approach.

22. Currently, negotiations are in progress with NUCPS (for executive grades) and with CPSA (clerical and secretarial grades) on flexible pay agreements which would, like the earlier agreements, incorporate the ability to move posts up and down a pay spine to meet recruitment and retention difficulties of a

geographical nature. We hope to conclude negotiations in time for the April 1989 settlement. In considering the shape of this settlement, we shall have the London problem very much in mind.

23. We may also wish to propose certain changes in the rules on local pay additions, possibly to increase the ceiling on payments from the present £600 p.a. and to widen the range of grades to which payments may be made.

24. It will of course be necessary for departments to absorb extra costs arising from any of these recommendations within their running costs plans agreed in the 1988 Survey. The targeted nature of the proposals should make it easier for them to do so.

HM Treasury

6 December 1988

cc: Chief Secretary  
 Paymaster General  
 Sir P Middleton  
 Mr Anson  
 Dame A Mueller  
 Mr Phillips  
 Mr Luce  
 Ms Seammen  
 Mr Kelly  
 Mr Chivers  
 Mr Graham  
 Mrs Harrop  
 Mr Bell

9 Dec?



Treasury Chambers, Parliament Street, SW  
 01-270 3000

PRIME MINISTER

**CIVIL SERVICE PAY**

I attach a note on Civil Service pay, and on recruitment and retention in London. You requested this in Nigel Wick's letter of 21 November.

The keystone of our policy as an employer is flexibility. We need to be able to respond to market pressures by making appropriate payments for performance and for scarce skills, in the areas where we need them. We need also to urge the advantages of flexibility on the review bodies (including the Armed Forces Review Body) and in relation to other public sector employees, including firemen, teachers and the police. We shall only be open to accusations of inconsistency, as George Younger suggested, if we continue to maintain outdated notions of comparability for particular categories of public servants.

For Civil Service pay, the recent IPCS settlement shows that we can use long term flexible pay agreements to achieve the results we need - responding to difficulties of recruitment and retention without resorting to unacceptably expensive across-the-board increases. This is the way we must go - if possible in agreement with the Civil Service unions if we can get it on our terms, but if necessary without such agreement.

I recognise that some departments do have difficulties in retaining staff, especially in London and the South East. We have introduced local pay additions this year, and are looking at the





future of such additions and of London Weighting in the context of possible agreements on long term pay covering the executive, clerical and secretarial grades. The TSRB is, I understand, likely to recommend a London allowance for Grade 3 of £2,000.

There is of course a limit to what we can afford by way of Civil Service pay increases, however well targeted. Departments must be clear about their priorities within their running cost limits, and make realistic assumptions about pay increases when deciding how to budget within those limits. All departments must also address the question of relocation outside London and the South East very seriously.

I am copying this minute to Sir Robin Butler.

A handwritten signature in black ink, appearing to be 'NL' with a horizontal line underneath.

**NIGEL LAWSON**

CIVIL SERVICE PAY: NOTE BY TREASURY OFFICIALS

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2. Recruitment and retention difficulties are not always due to pay. They can reflect non-pay benefits offered by competing employers, and also factors specific to the particular civil service establishment - for example, the nature of the work, the promotion prospects, the state of management, the exact location of the office. Thus the existence of a recruitment or retention problem does not necessarily point to a pay increase - and certainly not an across-the-board one.

**THE EVIDENCE**

3. Data on non-industrial civil service resignations show that the rate is significantly higher in London and the South East of England than in the rest of the country. Annex A illustrates the overall picture. The figures are, as might be expected, higher at the more junior grades, and the contrast between the South East and elsewhere is most marked for these grades, although it also appears at more senior levels.

4. The position on recruitment is more difficult to analyse because recruitment at more junior levels is done by Departments themselves, while the Civil Service Commission do most recruitment at and above EO levels. However, there appears to be the same contrast between London and the South East, and the rest of the country. As for higher grades, the Civil Service Commission's annual report for 1988 says:

"A persistent problem, across all our recruitment, has been to fill vacancies in London and the South East."

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5. These results are not surprising when the evidence on the regional economy is considered. North/South contrasts in unemployment rates, average earnings and house prices have all been increasing in recent years. This obviously has an effect on large organisations like the civil service with a mainly national pay structure.

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#### **FUTURE TRENDS**

8. On the demand side, a key factor is relocation to other parts of the country. The relative positions of the North and South, and the growing sophistication of technological links point to moving much work as possible out of London and the South East. At

present there are about 115,000 non-industrial civil servants in London (about 23 per cent of the service-wide total), and a further 80,000 in the rest of the South East (16 per cent). Decisions about relocation are taken by Departmental Ministers, taking account of analysis of the costs and benefits. The benefits already include items such as savings in office rent and London Weighting; if pay in the South East is further increased, this will add to the advantage of moving. The easier availability of good quality junior staff is a further important advantage even if less easy to quantify. But although the numbers of civil servants needed in and around London should decline as a result of the relocation policy, the effects will take time to appear. It will continue to be important to attract and retain sufficient staff of adequate calibre.

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## ACTION

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- iii. Special Pay Additions can be made to groups of staff with particular recruitment and retention problems. There is no formal upper limit but a very strong case has to be made. The SPA applying to secretarial staff in Inner London has now been converted to an LPA. Other SPAs have mainly been for specialised groups of staff, including industrial staff, usually at particular establishments in the South East of England including for instance Aldermaston Atomic Weapons Establishment. Some of these are being subsumed within basic pay scales as part of the flexible pay agreements.
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#### RECOMMENDATIONS

20. The Treasury has been discussing these problems with departments in a working group, which will produce its final report shortly. While the detail of its recommendations is yet to be finalised, the main direction of our policy is clear.



21. Departments are agreed that a flexible pay policy is needed to deal with the special problems of London and some parts of the South East. London Weighting is too inflexible an instrument to address these problems. A combination of use of the provisions of flexible pay agreements, and local pay additions, provides a more targeted approach.

22. Currently, negotiations are in progress with NUCPS (for executive grades) and with CPSA (clerical and secretarial grades) on flexible pay agreements which would, like the earlier agreements, incorporate the ability to move posts up and down a pay spine to meet recruitment and retention difficulties of a geographical nature. We hope to conclude negotiations in time for the April 1989 settlement. In considering the shape of this settlement, we shall have the London problem very much in mind.

23. We may also wish to propose certain changes in the rules on local pay additions, possibly to increase the ceiling on payments from the present £600 p.a. and to widen the range of grades to which payments may be made.

24. It will of course be necessary for departments to absorb extra costs arising from any of these recommendations within their running costs plans agreed in the 1988 Survey. The targeted nature of the proposals should make it easier for them to do so.

HM Treasury

6 December 1988

RESIGNATION RATES IN 1981

	London	Rest of South East	Other Regions	Total UK
	%	%	%	%
SEO	1.4	0.8	0.7	0.8
HEO	2.3	2.7	1.0	1.5
E0	5.6	3.9	1.9	3.0
AO	14.6	11.0	4.8	7.5
AA	20.0	17.1	9.2	12.1
Secretarial Group	8.9	9.1	5.1	6.8

AB/10

CONFIDENTIAL

File  
Mc Henochan

FROM: MS D J SEAMMEN

DATE: 19 December 1988

1. MR KELLY <sup>with</sup> 19.12.
2. CHANCELLOR

cc Chief Secretary  
Paymaster General  
Sir P Middleton  
Dame Anne Mueller  
Mr Anson  
Mr Phillips  
Mr Luce  
Mr Chivers  
Mr Graham  
Mr Harrop  
Mr Bell  
Mr Lawson  
Mrs Chaplin

Mr Kemp-OMCS

CIVIL SERVICE PAY

You are meeting the Prime Minister on 21 December, with Sir Robin Butler, to discuss your minute to the Prime Minister of 9 December on civil service pay. The origin of the meeting lies in Mr Younger's letter of 14 November, which drew attention in particular to his own problems in recruiting and retaining civil servants, especially in London and the South East; and sought a meeting of MISC 66. This bilateral was arranged by No.10 in order, to clear lines between you and the Prime Minister and, perhaps, to avoid any need for a meeting of MISC 66.

For background, see my minute of 1 December.

Points to make

1. Important to distinguish between London and SE, and rest of country; resignation rates in Annex A to the Treasury paper bring out the difference starkly eg Administrative Officer resignation rate of 14.6% in London, only 4.8% outside London and South East. Suggests that civil service pay is not, on the whole, out of line with the market except in London and some parts of the SE;

CONFIDENTIAL

2. But there are specialisms where there are national shortages - accountants, lawyers, some computer people - and other pockets of recruitment and retention difficulty;

3. As with other employers, our response must be flexibility; to avoid unnecessary and expensive across-the-board increases and to concentrate the available cash where it is most needed, to recruit, retain and motivate staff of adequate calibre;

4. We have negotiated flexible pay agreements accordingly, covering some 30% of the non industrial civil service, which allow us to vary pay according to performance skills, function or location. First test of these agreements was recent IPCS settlement, regarded as a success by departments in using flexibilities to best effect within available resources. (Mr Younger, large employer of IPCS grades, expressed his satisfaction.)

5. Will be our aim to use other agreements similarly - in the case of Grades 5-7 and Inland Revenue staff, in next August's settlement. Currently negotiating similar agreements for executive and clerical grades, ie majority of civil service. Our judgment is that such agreements make it easier to secure the flexibilities we need; but clearly, if we cannot get agreement on our terms, we shall go ahead anyway;

6. Turning to London, we have done a lot to ease the position this year, and intend to do more next. We increased London Weighting in July this year by 14%, we have introduced local pay additions (mainly for recruitment grades), the IPCS settlement gave preferential treatment to people in London and lawyers at Grades 6 and 7 were given a higher London rate;

7. For next year, we shall probably want to increase both the coverage and the maximum level of local pay additions and, in the event of agreements on executive and clerical grades, to build into them a higher London rate to meet the undoubted difficulties of recruitment and retention at these grades. We would expect that the settlements for Grades 5-7 and for Inland Revenue would similarly incorporate a higher London rate. The Andrew proposals for lawyers, and the Tréasury's proposed response, again are

directed to particular London problems. And, lastly, we expect that the TSRB will recommend a £2,000 London allowance for Grade 3.

8. What we can do is constrained by what departments can afford within running cost limits. But flexibility of this kind represents good value for money.

9. Important that we should be consistent in our pay policy in public sector. George Younger has pointed to discrepancy between comparability criterion applied to Armed Forces' pay, and strict market factors we apply to civil service. He has so far resisted a wholehearted market approach to servicemen's pay. But there are other areas eg police and firemen where it will be an uphill task to bring about change; we must take every opportunity to do so.

#### Defensive

1. Latest resignation figures show sharp increase?

Provisional figures for first half of 1988 do show increase across most grades, but most particularly in London and South East. [As bad as previous peak in 1979]. Remember that they predate all the action we have taken - increase in London Weighting, local pay additions, IPCS settlement. Expect all this to have impact.

2. London Weighting too high/low?

At £1750 pa (inner London rate) to all grades from Grade 4 down, just above median of £1600, though well below financial sector parts of which commonly pay £3,000. Unselective instrument, with too much deadweight cost: flexibilities in long term pay agreements and local pay additions allow greater selectivity. Need to look at all extra amounts available in London: for instance some Customs staff in VAT offices get extra £3,000 p.a. through combination of London Weighting and special additions.

3. Future of London Weighting

There, and can't be abolished; but expect relative importance to decline over time as use of 'more targeted instruments - local pay

additions and special London rates under flexible pay agreements - assume greater importance.

4. Problems outside London.

In some, but not all, parts of South East eg Reading, Crawley; and other 'hot spots' outside SE, eg Cambridge, Bristol. Local pay additions are appropriate instrument.

5. Why have agreements with unions?

Only if they give us what we need at affordable cost. Agreement can be helpful in convincing staff of the need for change; and unions are not in practice in a position to stop us doing what we want.

6. Will agencies be constrained?

View of Project Manager (Peter Kemp) is that most agencies, at least in early years, will not want to do their own pay bargaining in relation to basic rates. But they will want individually tailored pay regimes sooner or later and to a greater or lesser extent. In some cases this could be a range of local flexibilities (skill, merit, geography) on top of Service-wide arrangements. In other cases a completely new arrangement will be needed, of which HMSO's new pay and grading structure is an example. Flexibilities in agreements should make it easier for agencies, as well as for departments, to manage staff in most cost-effective way. Treasury officials in close touch with Project Manager.

7. Can running cost provision accommodate what is needed to get the civil servants we want?

Important to recognise affordability constraint as reflected in running cost limits. Cash provision for 1989-90 set in Survey, will be announced in forthcoming PEWP; clearly essential not to exceed this. Normally incorporate pay assumptions made by departments themselves (not imposed by us). Main departments have probably provided between 6 and 6½ per cent for 1989-90 settlements.

8. What about Grade 6 pay next year, and so MP's pay?

Not possible to forecast now, will be settled in August following survey of pay levels outside public sector, and in light of recruitment or retention position. Government has made plain its disapproval of link. Would be wrong for link with MPs to prevent Government responding to market in case of its own staff.

9. Public sector pay out of hand?

If settlements not under direct control of Ministers are excluded (police and firemen, review body groups, local authorities) average settlement in public service of 5%, below estimated private sector average of 6%. So far in this round, public sector settlement (6%) below private sector settlements (6½%); private sector about ½% higher than 1987-88 as whole, public sector 2% lower than for 1987-88 (because of much smaller increase for local authority manuals - 5.6% compared with 10.6%).

See Annex B for analysis of past years.



MS D J SEAMMEN

ANNEX A

LONDON WEIGHTING

London Weighting paybill cost	£167m
As % of total paybill	3%
£100 on Inner London rate as %	£ 7½m 0.15%
£100 on all London Weighting as %	£ 11½m 0.2%



(D) Level of Pay Settlements and Growth of Average Earnings  
Pay Rounds 1984/85 to 1987/88

	1984/85		1985/86		1986/87		1987/88		CUMULATIVE	
	Settle- ment %	Earnings %	Settle- ment %	Earnings %	Settle- ment %	Earnings %	Settle- ment %	Earnings %	Settle- ment %	Earnings %
Whole Economy	5.8 (6.2)	7½	6.1 (6.6)	7½	6 (6.9)	8*	7 (7.1)	9	27.3 (29.6)	36
Private Sector	6.1 (6.2)	8½	5.6 (6.1)	7½	5.3 (5.7)	8	5.9 (6.3)	8½	24.9 (26.6)	37½
- manufacturing	6.0 (6.3)	9	5.6 (6.2)	7½	4.9 (5.1)	8½	5.5 (6.1)	9	23.9 (25.9)	38½
- non-manufacturing	6.1 (6.1)	8	5.6 (6.0)	7½	5.5 (5.8)	7½	6.1 (6.4)	8½	25.4 (26.6)	36
Public Sector	5.6 (6.1)	6	6.5 (7.0)	7½	6.7 (7.9)	7½*	7.9 (7.8)	9½	29.5 (32)	34½
- trading	5.5 (5.7)	7½	6.1 (5.9)	8½	4.9 (5.6)	7	5.6 (6.4)	9½	24 (25.8)	35½
- services	5.6 (6.3)	5½	6.5 (7.2)	7½	7 (8.4)	8*	8.3 (8)	10	30.3 (33.4)	34
- Civil Service (non-ind)	5.1		6.0 (7.0)		5.4 (6.2)		5.1 (7.2)		23.4 (28)	
- NHS Review Bodies	5.6 (8.4)		5.8 (7.8)		9.2		15.8		41.3 (47.8)	
- Police	5.1		7.5		7.5		7.75		30.9	
- Local Authority manuals	5.08		8.14		6.95 (8.2)		10.7 (9.2)		34.5 (34.3)	
- Teachers (E&W)	6.9 (8.5)		5.73		10.25(16.4)		4.75		30.5 (39.9)	
- NHS Ancil, Admin & Cler.	4.7		6.0 (6.1)		5		5.7 (6.1)		23.2 (23.8)	
Prices (July-July)		RPI %		RPI %		RPI %		RPI %		RPI %
		6.9		2.4		4.4		4.8		19.8

Full year costs are shown in brackets

\* These figures include the second stage of the 1986/87 teachers settlement which was paid from 1 October 1987



Treasury Chambers, Parliament Street, SW  
01-270 3000

**PRIME MINISTER**

**CIVIL SERVICE PAY**

cc: Chief Secretary  
Paymaster General  
Sir P Middleton  
Mr Anson  
Dame A Mueller  
Mr Phillips  
Mr Luce  
Ms Seammen  
Mr Kelly  
Mr Chivers  
Mr Graham  
Mrs Harrop  
Mr Bell

*19/12/88*

*PM*

I attach a note on Civil Service pay, and on recruitment and retention in London. You requested this in Nigel Wick's letter of 21 November.

The keystone of our policy as an employer is flexibility. We need to be able to respond to market pressures by making appropriate payments for performance and for scarce skills, in the areas where we need them. We need also to urge the advantages of flexibility on the review bodies (including the Armed Forces Review Body) and in relation to other public sector employees, including firemen, teachers and the police. We shall only be open to accusations of inconsistency, as George Younger suggested, if we continue to maintain outdated notions of comparability for particular categories of public servants.

For Civil Service pay, the recent IPCS settlement shows that we can use long term flexible pay agreements to achieve the results we need - responding to difficulties of recruitment and retention without resorting to unacceptably expensive across-the-board increases. This is the way we must go - if possible in agreement with the Civil Service unions if we can get it on our terms, but if necessary without such agreement.

I recognise that some departments do have difficulties in retaining staff, especially in London and the South East. We have introduced local pay additions this year, and are looking at the



future of such additions and of London Weighting in the context of possible agreements on long term pay covering the executive, clerical and secretarial grades. The TSRB is, I understand, likely to recommend a London allowance for Grade 3 of £2,000.

There is of course a limit to what we can afford by way of Civil Service pay increases, however well targeted. Departments must be clear about their priorities within their running cost limits, and make realistic assumptions about pay increases when deciding how to budget within those limits. All departments must also address the question of relocation outside London and the South East very seriously.

I am copying this minute to Sir Robin Butler.

A handwritten signature in black ink, appearing to be 'NL' with a horizontal line underneath.

**NIGEL LAWSON**

CIVIL SERVICE PAY: NOTE BY TREASURY OFFICIALS

Civil service pay is based on the need to recruit, retain and motivate sufficient staff of adequate calibre, within what can be afforded. It is not directly related to the salaries paid by other employers, or to the cost of living, but both are of course indirectly relevant as they can affect recruitment and retention.

2. Recruitment and retention difficulties are not always due to pay. They can reflect non-pay benefits offered by competing employers, and also factors specific to the particular civil service establishment - for example, the nature of the work, the promotion prospects, the state of management, the exact location of the office. Thus the existence of a recruitment or retention problem does not necessarily point to a pay increase - and certainly not an across-the-board one.

**THE EVIDENCE**

3. Data on non-industrial civil service resignations show that the rate is significantly higher in London and the South East of England than in the rest of the country. Annex A illustrates the overall picture. The figures are, as might be expected, higher at the more junior grades, and the contrast between the South East and elsewhere is most marked for these grades, although it also appears at more senior levels.

4. The position on recruitment is more difficult to analyse because recruitment at more junior levels is done by Departments themselves, while the Civil Service Commission do most recruitment at and above EO levels. However, there appears to be the same contrast between London and the South East, and the rest of the country. As for higher grades, the Civil Service Commission's annual report for 1988 says:

"A persistent problem, across all our recruitment, has been to fill vacancies in London and the South East."

A broadly similar pattern appears with industrial craftsmen.

5. These results are not surprising when the evidence on the regional economy is considered. North/South contrasts in unemployment rates, average earnings and house prices have all been increasing in recent years. This obviously has an effect on large organisations like the civil service with a mainly national pay structure.

6. However, this overall picture conceals further variations. An inter-departmental working party on geographical pay, which reported in February 1987, found wide variations between Departments and towns - and indeed between different offices of the same Department in the same town. These differences appeared inside and outside the South East of England. The area with the most serious problems extended beyond London itself, to include a South East zone, with a boundary a little outside the M25, with extensions along the M3/M4 corridor. This zone contained the most seriously affected areas - although the position was patchy even within it, and there were pockets elsewhere with severe problems.

7. Recent evidence has broadly confirmed both the definition of the zone and the variations within it. But there are also signs of stress outside the South East; in particular, difficulties are increasing in parts of East Anglia, especially in Cambridgeshire, and parts of the South West.

#### **FUTURE TRENDS**

8. On the demand side, a key factor is relocation to other parts of the country. The relative positions of the North and South, and the growing sophistication of technological links point to moving much work as possible out of London and the South East. At

present there are about 115,000 non-industrial civil servants in London (about 23 per cent of the service-wide total), and a further 80,000 in the rest of the South East (16 per cent). Decisions about relocation are taken by Departmental Ministers, taking account of analysis of the costs and benefits. The benefits already include items such as savings in office rent and London Weighting; if pay in the South East is further increased, this will add to the advantage of moving. The easier availability of good quality junior staff is a further important advantage even if less easy to quantify. But although the numbers of civil servants needed in and around London should decline as a result of the relocation policy, the effects will take time to appear. It will continue to be important to attract and retain sufficient staff of adequate calibre.

9. On the supply side, the number of school leavers will continue to decline for some years. This effect is more marked in the South East than in most other regions, although it should be offset to some extent by a continuing rise in activity rates, especially among women.

10. The behaviour of other employers is hard to predict. Polarisation of pay between London and the South East, and the rest of the country, is increasingly evident partly due to the concentration of relatively high paid jobs in the South East. For instance the financial sector is the leader in increasing London Weighting; figures of £3,000 are not uncommon in this sector, as compared with a median of about £1,600. Some employers are finding the labour market situation in the South East so difficult that they are considering relocation. But there is also some tendency to move to less expensive parts of London and the South East, rather than right out of the region. The opening of the Channel Tunnel, combined with the European market in 1992, is likely to further stimulate employment in the South East.

## EFFECTS ON THE WORK OF DEPARTMENTS

11. There is no rule to determine what overall level of turnover is wasteful. For example, high wastage of cleaners probably matters little as long as vacancies can be filled; but a much lower level for tax inspectors, for example, may be serious because of the investment in training and the experience needed to do the job effectively. Even at AO level, the extent to which high turnover matters depends on the type of work.

12. Nor are the carrying of vacancies and frequent recruitment exercises necessarily inefficient. Complement figures are unreliable guides to actual needs, and a few vacancies can lead to greater concentration on the work with highest priority and greater efficiency. Recruitment exercises are time-consuming and expensive, but are not wasteful if they attract candidates of the right calibre at a relatively low salary.

13. However, there comes a stage where high levels of resignations, problems of recruitment and continuing vacancies causes real inefficiencies and costs. Departments consider that this point has been reached in a number of offices in and around London. They report that the quality of new recruits is often low, and that there are genuine vacancies which have to be carried for long periods, to the detriment of the departments' functions and the moral of other civil servants.

14. The high cost of housing is often identified as a particular cause of resignations. The availability of jobs offering not only higher pay but also help with housing costs is a cause of resignations, in particular among people whose skills make them attractive to the financial sector. The high cost of rented accommodation, even of very basic quality, makes it very difficult to attract young people from the less prosperous parts of the country who would otherwise be willing to come to London to work. It is also becoming more difficult for management to persuade

staff to move into and out of London. Help with relocation is available, but does not necessarily reflect the full difference in house prices. Mobility, which can be important for management purposes (and to ease the problems in the South East), can be difficult to achieve.

## ACTION

15. Overall, the labour market in the South East is likely to remain tight. The problems faced by departments in and around London are severe enough to justify action, including measures on the pay front. However, the nature and extent of the problem varies by Department and location. These variations will continue, but not necessarily in the same form as at present. The action therefore needs to be flexible, able to discriminate between varying needs and to respond quickly to changing circumstances.

16. On the pay front, the following mechanisms are available:-

- i. London Weighting. There are three zones. Payments are the same for all staff up to and including Grade 4, apart from those under 18 who receive a lower rate. Current rates are:-

	Adults	Under 18
Inner London	£1750	£1313
Intermediate London	£1000	£ 700
Outer London	£ 725	£ 544

These rates include 1988 increases of about 14% - well above the percentage increase in other civil service pay rates.



ii. Local Pay Additions (LPAs), introduced from July this year, are payments of up to £600 p.a. (£700 for secretarial group in Inner London) to groups of staff with recruitment and retention problems. Unlike London Weighting they can vary according to Department, location, grade and seniority in the grade. Most payments are to staff in the clerical and secretarial groups and to EOs within the South East zone. Proposals are made by individual Departments and approved by the Treasury following local consultation.

iii. Special Pay Additions can be made to groups of staff with particular recruitment and retention problems. There is no formal upper limit but a very strong case has to be made. The SPA applying to secretarial staff in Inner London has now been converted to an LPA. Other SPAs have mainly been for specialised groups of staff, including industrial staff, usually at particular establishments in the South East of England including for instance Aldermaston Atomic Weapons Establishment. Some of these are being subsumed within basic pay scales as part of the flexible pay agreements.

iv. Movements under the flexible pay agreements

There are at present three long-term pay agreements which provide for variations in pay according to location. They cover staff represented by the IPCS and IRSF, and Grades 5-7. The very recent settlement following the IPCS levels survey gave an extra spine point for all staff in London, and the Grades 5-7 agreement is starting to be used to give extra for particular specialisms in London eg fully trained Inspectors of Taxes. Possible agreements of a similar type are being discussed with NUCPS and the CPSA.

17. There are also non-pay measures; in particular, there is a relocation package, which includes provision for an on-going allowance to help with cost of buying a house in a more expensive area (but not when moving to a cheaper one), and an advance of 6-months salary. Other measures include detached duty, to assist people moving location on a temporary basis for managerial reasons. In general the civil service does not provide its staff with financial help for housing. But there are arrangements to give interest-free loans for season tickets, which are particularly important in and around London.

18. There are cost constraints on what more we can do for London, without imposing unsustainable pressures on the civil service paybill and hence on departmental running costs.

19. The recent IPCS settlement will cost over 6 per cent in a full year, though part of that cost will be offset against the August 1989 settlement. The full impact of the 14 per cent increase in London Weighting from July 1988 will be felt by departments in 1989-90, and the unions will be looking for a further increase from April 1989. Local pay additions already cost some £25 million a year. We will have to deal with a settlement for Grades 5-7 and for Inland Revenue staff from August 1989 which will be informed by surveys of pay levels outside the public services sector. In negotiations on flexible pay agreements, NUCPS and CPSA will have very much in mind that previous such agreements have given staged increases of up to 7 per cent per annum at a time when the immediate outlook for inflation was more favourable than now.

#### **RECOMMENDATIONS**

20. The Treasury has been discussing these problems with departments in a working group, which will produce its final report shortly. While the detail of its recommendations is yet to be finalised, the main direction of our policy is clear.

21. Departments are agreed that a flexible pay policy is needed to deal with the special problems of London and some parts of the South East. London Weighting is too inflexible an instrument to address these problems. A combination of use of the provisions of flexible pay agreements, and local pay additions, provides a more targeted approach.

22. Currently, negotiations are in progress with NUCPS (for executive grades) and with CPSA (clerical and secretarial grades) on flexible pay agreements which would, like the earlier agreements, incorporate the ability to move posts up and down a pay spine to meet recruitment and retention difficulties of a geographical nature. We hope to conclude negotiations in time for the April 1989 settlement. In considering the shape of this settlement, we shall have the London problem very much in mind.

23. We may also wish to propose certain changes in the rules on local pay additions, possibly to increase the ceiling on payments from the present £600 p.a. and to widen the range of grades to which payments may be made.

24. It will of course be necessary for departments to absorb extra costs arising from any of these recommendations within their running costs plans agreed in the 1988 Survey. The targeted nature of the proposals should make it easier for them to do so.

HM Treasury

6 December 1988

RESIGNATION RATES IN 1987

	London	Rest of South East	Other Regions	Total UK
	%	%	%	%
SEO	1.4	0.8	0.7	0.8
HEO	2.3	2.7	1.0	1.5
E0	5.6	3.9	1.9	3.0
AO	14.6	11.0	4.8	7.5
AA	20.0	17.1	9.2	12.1
Secretarial Group	8.9	9.1	5.1	6.8

Please attach:

Revised Annex to Chancellor of the Exchequer's minute of 9 December  
to PM on Civil Service Pay

RESIGNATION RATES IN 1987

	London	Rest of South East	Other Regions	Total UK
SEO	1.2%	0.8%	0.5%	0.8%
HEO	2.1%	2.9%	0.9%	1.6%
EO	4.8%	3.8%	1.8%	2.9%
AO	19.6%	13.7%	5.3%	8.9%
AA	12.0%	10.2%	4.4%	6.8%
Secretarial Group	8.3%	8.4%	4.4%	6.1%

Ref. A088/3642

PRIME MINISTER

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CHANCHEQUER	
20 DEC 1988	
ACTION	MR KELLY ✓ 20/12
COPIES TO	CST, PMG SIR P MIDDLETON
	SIR T BURN DAVE A MUELLER
	MR ANSON MR EDWARDS
	MS SEAMEN, MR De BEATER MRS CHAPLIN

Civil Service Pay and Staffing

You are due to have a meeting with the Chancellor of the Exchequer, Sir Peter Middleton and myself on Wednesday 21 December. The Chancellor of the Exchequer has sent you a note about Civil Service pay.

2. This meeting provides a good opportunity to review the overall staffing situation in the main departments, to see where the main shortages are occurring and to consider what action is best directed to dealing with them. A note and some tables based on information provided by the main employing departments have been provided to me and it would be useful for you and the Chancellor also to see them. A glance through the figures will give you the broad picture.

3. You will see that the picture coincides substantially with the Chancellor's minute and the enclosure to it. The problems are patchy, and they are clearly worse in London and the South East than elsewhere.

4. I am copying this minute to the Chancellor of the Exchequer and Sir Peter Middleton.

R.B.

ROBIN BUTLER

19 December 1988

BUTLER  
TO  
PM  
19 DEC

## STAFF SHORTAGES IN LONDON AND THE SOUTH EAST

### Vacancies

1. Annex A contains tables showing current vacancies as a percentage of complement for 7 major departments in London, the South East and elsewhere.

2. The picture is far from uniform. There are wide variations between departments, locations and grades. In several departments special factors are contributing to an abnormal vacancy position. These are explained below.

3. The figures clearly show that, with the possible exception of the Secretarial grades, staffing problems are confined to London and the South East. The highest vacancy rates are in predictable areas:

- Secretarial grades: MOD (15% London and SE)  
DHSS (10% SE, 9% London)  
Cabinet Office (14% SE, 7% London)
- AA: MOD (26% London, 17% SE)  
DOE/DTp (13% London)  
Customs (16% London)
- AO: DOE/DTp (21% London)  
MOD (14% London, 7% SE)  
Customs (10% London)
- EO: MOD (13% SE)

4. Certain departments have particular problems in other grades, for example, the Cabinet Office at SEO and grade 7 and Customs and Excise at HEO. Consistently the highest vacancy rates are to be found in MOD (whose figures, unlike some others, do not include vacancies covered by temporary promotion) but the position in Customs and Excise and DOE/DTp (especially the very high number of temporary promotions in the latter) is also cause for concern.

### Wastage

5. Vacancy rates do not give the whole picture. In most departments, long term overall wastage rates are a greater problem. Annex B gives Treasury figures for national resignation rates by grade. In 1987 these averaged around 12.5% at AA, 7.5% at AO. By contrast, DTI's average wastage rates in London are currently 27% at AA and 19% at AO.

6. Certain locations in London and the South East have particularly acute problems as Department of Employment figures for AO wastage illustrate:

- |   |     |
|---|-----|
| - Employment Service (London & S. East)     | 26% |
| - Health and Safety Executive (London)      | 40% |
| - Skills Training Agency (London & S. East) | 69% |

- Employment Service (Working)

93%

- Training Agency (Working)

118%

7. High wastage rates do not necessarily mean departments are carrying large numbers of vacancies. Even if they are managing to replace staff, however, the cost to departments is high in terms of:

- increased recruitment costs;
- increased training costs;
- disruption to work output;
- fewer staff fit for promotion.

8. There are no figures at Annex A for the Scottish Office, which has vacancy problems only in a few professional areas. Wastage is increasing among clerical staff, however, and has reached 13% per annum at AA level. Increased recruitment and retention difficulties are expected in the future.

#### Departments

9. There are special factors affecting the vacancy position in a number of departments which are reflected in the figures at Annex A.

#### Employment

10. Vacancy rates in the Department of Employment are generally being kept down by continuous recruitment schemes, assisted by a contraction in workload, and numbers, in the Employment Service. This masks very high wastage rates in certain locations as shown above.

#### Health and Social Security

11. Because of falling workloads, computerisation and relocation policies, DSS have full complements and even surpluses in some grades. Recruitment is necessary only in some of the most hard pressed London offices and, even there, often only on a limited period appointment basis.

#### Inland Revenue

12. Following two reviews of work at clerical level, Inland Revenue are currently undergoing a major regrading exercise. As a result their figures at Annex A show large shortfalls and surpluses in certain grades and do not reflect the underlying long term position.

13. Inland Revenue are also experiencing severe shortfalls among Tax Inspectors (where gaps are being covered by staff who are not fully trained) and in the Valuation Office (where vacancy levels are as high as 20-30% in senior grades). Details are at Annex A.



## Remedies

15. Departments have adopted a variety of different measures to help ease problems of recruitment and retention and are generally making full use of such flexibility as is allowed them by the Treasury. Measures include:

- local and special pay additions;
- special recruitment schemes;
- assistance with relocation and removal expenses;
- lowering recruitment standards;
- lowering promotion standards;
- increased temporary promotions;
- increased part time working;
- retention of staff over retirement age;
- use of agency and casual staff;

16.

Departments argue that such measures, whilst beneficial, have had only limited effectiveness, partly because of the requirement to contain expenditure within existing running costs. They are also concerned that some measures designed to ease short term difficulties are building up problems for the future.

17. There is particular concern about the extensive use of temporary promotions, agency and casual staff and about the increasing numbers of promotees and new recruits who obtain only the minimum acceptable board mark. DOE/DTP estimate that each agency employee costs an additional 15% in staff costs plus 2.5% in administrative support. MOD recently paid £450 per week for a PS.

## Conclusion

18. Although departments are convinced that the only long term answer to their problems is pay, the figures do not support a case for across the board solutions. In some departments the situation is in fact improving:

- a) Declining workloads in DSS and DE, and regrading in Inland Revenue, have resulted in surpluses in some grades and a halt to recruitment of permanent staff.
- b) DTI report that the outlook has improved over the past 9 months, except at EO. Much of their shortfall is in the result of the creation of 66 new posts in London during the past year.

c) The Home Office have filled their clerical vacancies in London and the situation in Croydon (included in the London figures at Annex A) has improved considerably, except for EO. Here again the shortfall is due more to increased workload, and complement, than to a deterioration in recruitment or retention.

19. Nonetheless, it is clear that there are real and continuing problems in certain departments, notably MOD, Customs and Excise and DNE/DTP.

In Customs and Excise, whilst the problem on the Customs side remains small (because of the opportunity to earn overtime and other payments) there are serious difficulties in local VAT offices in London and the South East.

20. Underlying wastage rates also remain high in many departments, which are concerned about the long term effects of the current situation, although the Treasury would no doubt argue that wastage is much higher in the private sector, and that temporary appointments are a more cost effective method of covering workload peaks than the recruitment and shedding of permanent staff.

21. The evidence suggests that these continuing problems of staff shortage would best be addressed by a further extension of current flexibilities to meet problems in specific grades and locations, through means such as local pay additions, relocation assistance and short service contracts with terminal bonuses.

## ANNEX A

## DEPARTMENT CABINET OFFICE

## LONDON

Grade	Vacancies	Percentage of Complement
7	6.5	4.1
SEO	5.5	10.8
HEO	+ 3.5	+ 4.6
EO	4.5	3.4
AO	10.5	5.9
AA	+ 2	+ 5.5
Sec	8.5	7.2
Typist	1	1.7

## SOUTH EAST

7	3	8.2
SEO	1	5.9
HEO	4.5	13.6
EO	+ 1	+ 1.7
AO	0.5	0.4
AA	4.5	6.1
Sec	0	0
Typist	3	14.0

## ELSEWHERE

7	0	0
SEO	0	0
HEO	-	-
EO	-	-
AO	0	0
AA	1	100
Sec	0	0
Typist	0.5	16.7

DEPARTMENT CUSTOMS AND EXCISE

LONDON<sup>1</sup>

Grade	Vacancies <sup>2</sup>	Percentage of Complement <sup>3</sup>
7	3	2
SEO	9	2.5
HEO	359	28.4
EO	51	3
AO	80	9.8
AA	68	16
Sec	-	-
Typist	2	1

SOUTH EAST<sup>2</sup>

7	4	1.7
SEO	14	2
HEO	491	22.1
EO	95	3.2
AO	113	6.3
AA	86	6.3
Sec	-	-
Typist	2	0.8

ELSEWHERE<sup>3</sup>

7	1	0.7
SEO	6	0.8
HEO	105	3.8
EO	68	1
AO	73	1.8
AA	39	2.9
Sec	-	-
Typist	2.5	1

Notes

1. London: HQ London, London North and West, London City and South, London Port.
2. South East: HQ London and London Collections plus HQ Southend, Reading and Northampton.
3. Elsewhere: All other collections including London Airport.
4. Figures include vacancies being filled by temporary promotion. Significant numbers of the HEO vacancies are being filled in this way.

DEPARTMENT MINISTRY OF DEFENCE

LONDON<sup>1</sup>

Grade	Vacancies	Percentage of Complement
7	0	0
SEO	38	9.1
HEO	61	6.4
EO	62	4.5
AO	413	14.3
AA	419	25.8
Sec	83	15.4
Typist	72	10.4

SOUTH EAST<sup>2</sup>

7	0	0
SEO	2	6.9
HEO	11	10.6
EO	28	13.3
AO	68	7.2
AA	95	16.5
Sec	15	14.7
Typist	24	15.8

ELSEWHERE

7	0	0
SEO	42	4.1
HEO	111	4.1
EO	234	4.3
AO <sup>3</sup>	40	0.4
AA <sup>3</sup>	120	2
Sec <sup>3</sup>	5	23.8
Typist <sup>3</sup>	44	1.7

Notes

1. London Weighting area.
2. The 5 major MOD establishments in South East England. No up to date figures available for area as a whole until January 1989.
3. Figures date from June 1987. Updated figures available January 1989.
4. Figures do not include vacancies filled by temporary promotion.
5. In addition, MOD currently have a 20% shortfall in ATs/HEO(D)s.

DEPARTMENT OF EMPLOYMENT<sup>1</sup>.

LONDON<sup>2</sup>.

Grade	Vacancies	Percentage of Complement
7		
SEO		
HEO		
EO	29	1.6
AO	47	1.2
AA	21	2.7
Sec )	3	11
Typist )		

SOUTH EAST<sup>3</sup>.

7		
SEO		
HEO		
EO	29	3.2
AO	54.5	3.4
AA	18	8.6
Sec )	3.5	6.1
Typist )		

ELSEWHERE

7  
SEO  
HEO  
EO  
AO  
AA  
Sec  
Typist

Notes

1. Covers Employment Service, HSE, Training Agency and Skills Training Agency.
2. Covers London, Essex, Kent and East Sussex.
3. Covers the rest of Southern England.
4. Figures are average number of vacancies per month, rather than actual vacancies.

DEPARTMENT OF ENVIRONMENT AND TRANSPORT<sup>1</sup>

LONDON

Grade	Vacancies <sup>2</sup>	Percentage of Complement <sup>3</sup>
7 <sup>3</sup>	11	3 (1.9)
SEO	5 (16)	2 (6.6)
HEO	40.5 (15)	6.5 (2.4)
EO	44 (20)	6.1 (2.7)
AO	83.5 (29)	20.8 (7.2)
AA	18 (51.5)	12.8 (36.5)
Sec )	10 (126.5)	2 (25)
Typist)		

SOUTH EAST

7	0 (0)	0 (0)
SEO	0 (2)	0 (10.5)
HEO	0 (4)	0 (6.3)
EO	4 (12.5)	2.3 (7.2)
AO	33 (17.5)	6 (3.2)
AA	2.5 (29)	1.1 (13.2)
Sec )	figures included in "Elsewhere"	
Typist)		

ELSEWHERE

7	0 (1)	0 (1.5)
SEO	0 (0)	0 (0)
HEO	2 (7)	0.6 (2.3)
EO	7 (24)	1.2 (4.2)
AO	18.5 (34)	1.4 (2.5)
AA	11 (21)	1.3 (2.6)
Sec	2 (8.5)	0.3 (1.5)

Notes

1. Figures do not include the Property Services Agency or the Driver and Vehicle Licensing Division.
2. Figures in brackets are additional vacancies, currently filled by temporary and geographical promotions, casual and agency staff.
3. Figures include grade 7 Accountant posts.

DEPARTMENT HEALTH AND SOCIAL SECURITY

LONDON

Grade	Vacancies	Percentage of Complement <sup>1</sup>
7	0	0
SEO	42.5	3.5
HEO	3	0.8
EO	129	3.6
AO	83.3	1
AA	81	4.5
Sec )	62	8.5
Typist)		

SOUTH EAST

7	2	2.5
SEO	62.5	9
HEO	8	6
EO	171.5	5
AO	152.5	3
AA	122	6.7
Sec )	24.5	10
Typist)		

ELSEWHERE

7	12	4.1
SEO	132.5	4.3
HEO	38	6.7
EO	701.5	4.5
AO	615	2.4
AA	888	11
Sec )	64.5	4.7
Typist)		

Notes

1.. Overall complements are currently being reduced because of declining workloads in Social Security offices. Figures quoted show vacancies as a percentage of the complement at 1 April 1988 and therefore understate vacancies as a percentage of current complement.

2. Figures include vacancies currently filled by temporary promotion, casual and agency staff.



DEPARTMENT HOME OFFICE<sup>1</sup>.

LONDON

Grade	Vacancies	Percentage of Complement
7	0	0
SEO	5	4
HEO	9.5	1.5
EO	95.5	8.3
AO	73.5	5
AA	11	1.5
Sec	26	10.1
Typist	16	10.4

SOUTH EAST<sup>2</sup>.

7  
 SEO  
 HEO  
 EO  
 AO  
 AA  
 Sec  
 Typist

ELSEWHERE<sup>2, 3</sup>.

7	0	0
SEO	0	0
HEO	10	12
EO	1	0.8
AO	1	3
AA	7.5	6.8
Sec	1	7.6
Typist	5	5.1

Notes/

1. Does not include Prison Establishments.
2. "Elsewhere" includes South East.
3. Primarily ADP vacancies.

DEPARTMENT INLAND REVENUE

LONDON

Grade	Vacancies	Percentage of Complement
7	6	4
SEO	7	3
HEO	32	8
EO	45	10
Tax Officer Higher Grade (EO)	120	5
Tax Officer (AO)	+140	+6
AA	160	7
Secretarial	60	5
Others	20	5

SOUTH EAST

7	0	0
SEO	0	0
HEO	0	0
EO	0	0
Tax Officer Higher Grade (EO)	55	7
Tax Officer (AO)	+180	+22
AA	220	18
Secretarial	+ 10	+ 5
Others	-	0

ELSEWHERE

7	2	2
SEO	8	5
HEO	20	5
EO	20	2
Tax Officer Higher Grade (EO)	+175	+ 2
Tax Officer (AO)	+510	+ 4
AA	930	8
Secretarial	+230	+ 8
Others	5	1

Notes

1. Inland Revenue is undergoing significant manpower changes following implementation of two reviews on the grading of clerical work. The operation involves shedding 1100 posts at EO and 250 at AO and adding 1600 at AA.

2. Whilst the downgrading exercise is taking place, many posts are being left vacant on a temporary basis. These vacancies are being covered by 600 casual staff.

DEPARTMENT INLAND REVENUE

LONDON

Departmental Grades	Vacancies	Percentage of Complement
Inspector (Grade 7)	100	20
Inspector (Senior)	10	6
Inspector (iii)	190	20
Technical Trainee	+240	+150
<b>SUB TOTAL</b>	<b>60</b>	<b>3</b>

Valuer (Grade 7)	-	-
Senior Valuer	75	29
Valuer	30	23
Valuation Technician	50	19
Valuation Clerk	20	7

SOUTH EAST

Inspector (Grade 7)	30	27
Inspector (Senior)	3	9
Inspector (iii)	65	18
Technical Trainee	+ 80	+ 36
<b>SUB TOTAL</b>	<b>20</b>	<b>3</b>

Valuer (Grade 7)	-	-
Senior Valuer	30	38
Valuer	10	17
Valuation Technician	15	18
Valuation Clerk	5	4

ELSEWHERE

Inspector (Grade 7)	50	7
Inspector (Senior)	5	1
Inspector (iii)	95	3
Technical Trainee	+ 130	+169
<b>SUB TOTAL</b>	<b>20</b>	<b>0</b>

Valuer (Grade 7)	-	-
Senior Valuer	25	3
Valuer	10	2
Valuation Technician	15	2
Valuation Clerk	5	1

Notes

1. The shortfall in qualified Tax Inspectors across the Inland Revenue is being made good by extensive use of Technical Trainees.

DEPARTMENT OF TRADE AND INDUSTRY

LONDON

Grade	Vacancies <sup>1</sup>	Percentage of Complement <sup>1</sup>
7	0 (1)	0 (0.3)
SEO	8 (13)	4 (6.5)
HEO	12.5 (0)	2 (0)
EO	37.5 (10.5)	3.7 (1.3)
AO	70.5	5.5 (0)
AA	53	6.5 (0)
Sec	1 (18)	0.4 (6.5)
Typist	0	0

SOUTH EAST<sup>2</sup>

7  
SEO  
HEO  
EO  
AO  
AA  
Sec  
Typist

ELSEWHERE<sup>2</sup>

7	1 (1)	1.3 (1.3)
SEO	11.5	10.1 (0)
HEO	+6 (4)	0 (2.5)
EO	+14.5	0 (0)
AO	26.5 (8)	2.6 (0.8)
AA	46	9.2 (0)
Sec	-	-
Typist	-	-

Notes

1. Figures in brackets are additional vacancies currently filled by temporary promotion or agency staff.

2. The figures for "elsewhere" include the South East.

The Civil Service: Non-Industrial staff  
 Resignations from selected grades during 1985, 1986 and 1987<sup>1</sup>

Grade	Numbers			Rates		
	1985	1986	1987	1985	1986	1987
<b>Open Structure</b>						
Grade 5	25	16	29	1.2	0.8	1.4
Grade 6	32	38	40	0.9	1.0	1.0
Grade 7 <sup>2</sup>	231	173	161	2.0	1.5	1.3
<b>Administration Group</b>						
Senior Executive Officer	64	68	76	0.8	0.9	0.9
Higher Executive Officer	401	414	436	1.7	1.7	1.7
Executive Officer (All)	1,401	1,520	1,639	3.2	3.3	3.3
Executive Officer (Direct Entrant)	671	699	839	7.2	7.0	8.0
Administrative Officer <sup>3</sup>	6,184	6,637	6,508	7.3	7.7	7.4
Administrative Assistant <sup>3</sup>	7,541	7,891	8,252	10.9	11.5	12.4
<b>Social Security Group</b>						
Local Officer 1	374	358	452	2.3	2.1	2.5
Local Officer 2	2,790	2,882	3,320	8.8	8.8	9.4
<b>Land Revenue Grades</b>						
Inspector	126	138	150	3.1	3.3	3.6
Tax Officer (Higher Grade)	340	311	438	3.3	2.8	3.9
Tax Officer	865	716	673	6.0	5.0	4.8
Collector	49	78	79	2.2	3.4	3.4
Assistant Collector	333	310	342	7.0	6.7	7.5
<b>Science Group</b>						
Senior Scientific Officer	69	50	30	2.3	1.7	1.0
Higher Scientific Officer	116	84	84	3.4	2.6	2.6
Scientific Officer	219	183	147	9.0	7.5	5.8
Assistant Scientific Officer	188	209	156	8.8	10.4	7.9
<b>Professional and Technology Group</b>						
Senior P & T Officer	91	79	86	1.9	1.6	1.7
Higher P & T Officer	178	175	155	2.6	2.5	2.3
P & T Officer <sup>4</sup>	..	407	380	..	2.6	3.0
<b>Other Grades</b>						
Personal Secretary	284	278	228	7.1	6.8	5.4
Typist <sup>5</sup>	1,663	1,678	1,493	8.1	8.3	7.4
Messenger	156	165	169	3.0	3.2	3.3
Paperkeeper	43	97	76	1.9	4.1	3.3
Telephonist	114	100	110	6.4	5.7	5.4
Cleaner	350	283	216	11.4	10.4	8.5
Prison VII (E&W)	4	8	6	0.2	0.3	0.3
Prison VIII (E&W)	162	203	159	1.3	1.5	1.2
Police Constable	65	73	77	2.4	2.4	2.4
Instructional Officer I (1987)	117	92	114	3.0	2.6	3.3

Source: Mandate

- <sup>1</sup> Figures for the latest year are provisional, and subject to increase as departments submit late notifications.
- <sup>2</sup> Grade 7 was introduced on 1 January 1986. Comparable figures for 1985 have been compiled and are equivalent to those for 1986.
- <sup>3</sup> Administrative Officer and Administrative Assistant were introduced on 1 January 1987. Comparable figures for 1985 & 1986 are shown.
- <sup>4</sup> P & T Officer was introduced on 1 January 1986, incorporating the obsolete PTO III grade and some of the staff in the obsolescent PTO IV grade. Figures for 1985 are not available.
- <sup>5</sup> The grades of Typist and Specialist Typist were restructured and combined in March 1986. The figures for 1985 have been adjusted to reflect this.

CONFIDENTIAL

for meeting  
folder.

FROM: MS D J SEAMMEN

DATE: 19 December 1988

1. MR KELLY <sup>was</sup> 19.12.
2. CHANCELLOR

cc Chief Secretary  
Paymaster General  
Sir P Middleton  
Dame Anne Mueller  
Mr Anson  
Mr Phillips  
Mr Luce  
Mr Chivers  
Mr Graham  
Mr Harrop  
Mr Bell  
Mr Lawson  
Mrs Chaplin

Mr Kemp-OMCS

CIVIL SERVICE PAY

You are meeting the Prime Minister on 21 December, with Sir Robin Butler, to discuss your minute to the Prime Minister of 9 December on civil service pay. The origin of the meeting lies in Mr Younger's letter of 14 November, which drew attention in particular to his own problems in recruiting and retaining civil servants, especially in London and the South East; and sought a meeting of MISC 66. This bilateral was arranged by No.10 in order, to clear lines between you and the Prime Minister and, perhaps, to avoid any need for a meeting of MISC 66.

For background, see my minute of 1 December.

Points to make

1. Important to distinguish between London and SE, and rest of country; resignation rates in Annex A to the Treasury paper bring out the difference starkly eg Administrative Officer resignation rate of 14.6% in London, only 4.8% outside London and South East. Suggests that civil service pay is not, on the whole, out of line with the market except in London and some parts of the SE;

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2. But there are specialisms where there are national shortages - accountants, lawyers, some computer people - and other pockets of recruitment and retention difficulty;

3. As with other employers, our response must be flexibility; to avoid unnecessary and expensive across-the-board increases and to concentrate the available cash where it is most needed, to recruit, retain and motivate staff of adequate calibre;

4. We have negotiated flexible pay agreements accordingly, covering some 30% of the non industrial civil service, which allow us to vary pay according to performance skills, function or location. First test of these agreements was recent IPCS settlement, regarded as a success by departments in using flexibilities to best effect within available resources. (Mr Younger, large employer of IPCS grades, expressed his satisfaction.)

5. Will be our aim to use other agreements similarly - in the case of Grades 5-7 and Inland Revenue staff, in next August's settlement. Currently negotiating similar agreements for executive and clerical grades, ie majority of civil service. Our judgment is that such agreements make it easier to secure the flexibilities we need; but clearly, if we cannot get agreement on our terms, we shall go ahead anyway;

6. Turning to London, we have done a lot to ease the position this year, and intend to do more next. We increased London Weighting in July this year by 14%, we have introduced local pay additions (mainly for recruitment grades), the IPCS settlement gave preferential treatment to people in London and lawyers at Grades 6 and 7 were given a higher London rate;

7. For next year, we shall probably want to increase both the coverage and the maximum level of local pay additions and, in the event of agreements on executive and clerical grades, to build into them a higher London rate to meet the undoubted difficulties of recruitment and retention at these grades. We would expect that the settlements for Grades 5-7 and for Inland Revenue would similarly incorporate a higher London rate. The Andrew proposals for lawyers, and the Treasury's proposed response, again are

directed to particular London problems. And, lastly, we expect that the TSRB will recommend a £2,000 London allowance for Grade 3.

8. What we can do is constrained by what departments can afford within running cost limits. But flexibility of this kind represents good value for money.

9. Important that we should be consistent in our pay policy in public sector. George Younger has pointed to discrepancy between comparability criterion applied to Armed Forces' pay, and strict market factors we apply to civil service. He has so far resisted a wholehearted market approach to servicemen's pay. But there are other areas eg police and firemen where it will be an uphill task to bring about change; we must take every opportunity to do so.

Defensive

1. Latest resignation figures show sharp increase?

*John  
mkt* / Provisional figures for first half of 1988 do show increase across most grades, but most particularly in London and South East. [As bad as previous peak in 1979]. Remember that they predate all the action we have taken - increase in London Weighting, local pay additions, IPCS settlement. Expect all this to have impact.

2. London Weighting too high/low?

At £1750 pa (inner London rate) to all grades from Grade 4 down, just above median of £1600, though well below financial sector parts of which commonly pay £3,000. Unselective instrument, with too much deadweight cost: flexibilities in long term pay agreements and local pay additions allow greater selectivity. Need to look at all extra amounts available in London: for instance some Customs staff in VAT offices get extra £3,000 p.a. through combination of London Weighting and special additions.

3. Future of London Weighting

There, and can't be abolished; but expect relative importance to decline over time as use of more targeted instruments - local pay



additions and special London rates under flexible pay agreements - assume greater importance.

4. Problems outside London.

In some, but not all, parts of South East eg Reading, Crawley; and other 'hot spots' outside SE, eg Cambridge, Bristol. Local pay additions are appropriate instrument.

5. Why have agreements with unions?

Only if they give us what we need at affordable cost. Agreement can be helpful in convincing staff of the need for change; and unions are not in practice in a position to stop us doing what we want.

6. Will agencies be constrained?

View of Project Manager (Peter Kemp) is that most agencies, at least in early years, will not want to do their own pay bargaining in relation to basic rates. But they will want individually tailored pay regimes sooner or later and to a greater or lesser extent. In some cases this could be a range of local flexibilities (skill, merit, geography) on top of Service-wide arrangements. In other cases a completely new arrangement will be needed, of which HMSO's new pay and grading structure is an example. Flexibilities in agreements should make it easier for agencies, as well as for departments, to manage staff in most cost-effective way. Treasury officials in close touch with Project Manager.

7. Can running cost provision accommodate what is needed to get the civil servants we want?

Important to recognise affordability constraint as reflected in running cost limits. Cash provision for 1989-90 set in Survey, will be announced in forthcoming PEWP; clearly essential not to exceed this. Normally incorporate pay assumptions made by departments themselves (not imposed by us). Main departments have probably provided between 6 and 6½ per cent for 1989-90 settlements.

8. What about Grade 6 pay next year, and so MP's pay?

Not possible to forecast now, will be settled in August following survey of pay levels outside public sector, and in light of recruitment or retention position. Government has made plain its disapproval of link. Would be wrong for link with MPs to prevent Government responding to market in case of its own staff.

9. Public sector pay out of hand?

If settlements not under direct control of Ministers are excluded (police and firemen, review body groups, local authorities) average settlement in public service of 5%, below estimated private sector average of 6%. So far in this round, public sector settlement (6%) below private sector settlements (6½%); private sector about ½% higher than 1987-88 as whole, public sector 2% lower than for 1987-88 (because of much smaller increase for local authority manuals - 5.6% compared with 10.6%).

See Annex B for analysis of past years.



MS D J SEAMMEN

ANNEX  
A

pay1.sb/seammen/19.12.004

ANNEX A

LONDON WEIGHTING

London Weighting paybill cost	£167m
As % of total paybill	3%
£100 on Inner London rate as %	£ 7½m 0.15%
£100 on all London Weighting as %	£ 11½m 0.2%

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(D) Level of Pay Settlements and Growth of Average Earnings  
Pay Rounds 1985 to 1987/88

	1984/85		1985/86		1986/87		1987/88		CUMULATIVE	
	Settle- ment %	Earnings %	Settle- ment %	Earnings %	Settle- ment %	Earnings %	Settle- ment %	Earnings %	Settle- ment %	Earnings %
Whole Economy	5.8 (6.2)	7½	6.1 (6.6)	7½	6 (6.9)	8*	7 (7.1)	9	27.3 (29.6)	36
Private Sector	6.1 (6.2)	8½	5.6 (6.1)	7½	5.3 (5.7)	8	5.9 (6.3)	8½	24.9 (26.6)	37½
- manufacturing	6.0 (6.3)	9	5.6 (6.2)	7½	4.9 (5.1)	8½	5.5 (6.1)	9	23.9 (25.9)	38½
- non-manufacturing	6.1 (6.1)	8	5.6 (6.0)	7½	5.5 (5.8)	7½	6.1 (6.4)	8½	25.4 (26.6)	36
Public Sector	5.6 (6.1)	6	6.5 (7.0)	7½	6.7 (7.9)	7½*	7.9 (7.8)	9½	29.5 (32)	34½
- trading	5.5 (5.7)	7½	6.1 (5.9)	8½	4.9 (5.6)	7	5.6 (6.4)	9½	24 (25.8)	35½
- services	5.6 (6.3)	5½	6.5 (7.2)	7½	7 (8.4)	8*	8.3 (8)	10	30.3 (33.4)	34
- Civil Service (non-ind)	5.1		6.0 (7.0)		5.4 (6.2)		5.1 (7.2)		23.4 (28)	
- NHS Review Bodies	5.6 (8.4)		5.8 (7.8)		9.2		15.8		41.3 (47.8)	
- Police	5.1		7.5		7.5		7.75		30.9	
- Local Authority manuals	5.08		8.14		6.95 (8.2)		10.7 (9.2)		34.5 (34.3)	
- Teachers (E&W)	6.9 (8.5)		5.73		10.25(16.4)		4.75		30.5 (39.9)	
- NHS Ancil, Admin & Cler.	4.7		6.0 (6.1)		5		5.7 (6.1)		23.2 (23.8)	
Prices (July-July)		RPI %		RPI %		RPI %		RPI %		RPI %
		6.9		2.4		4.4		4.8		19.8

Full year costs are shown in brackets

\* These figures include the second stage of the 1986/87 teachers settlement which was paid from 1 October 1987

Annex B

CONFIDENTIAL

FROM: MRS JUDITH CHAPLIN

20th December 1988

CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary  
Financial Secretary  
Paymaster General  
Mr Tyrie  
Mr Call

*X to A Jan 1989  
frank's job  
stunning*

CIVIL SERVICE PAY

The most important factor in dealing with the recruitment and retention problem is, as the briefing paper points out, increasing flexibility of pay awards. However, there is one point which is not brought out and I think is worth consideration.

CHAPLIN  
To  
CH/EX  
20/12

2. Pay is always discussed in terms of comparable pay levels with the private sector, however much we try to move away from comparability. All the representations to the teachers' pay review body contained swathes of information on comparability and the other pay review bodies' reports discuss comparability, as do all union negotiations.

X 3. But the comparability used is not comparing like with like because of the civil service inflation-proof pension which, say, over 20 years of retirement, is a substantial benefit. I understand it was estimated as the equivalent of an additional 8 per cent of gross pay in the Scott Report. This benefit is seldom mentioned when the public sector is being compared with the private sector and, indeed, is probably seldom recognised or taken into account when the figures are compared. I notice that a substantial number of the vacancies, for example at the Ministry of Defence, are at the levels of AO or AA and these would presumably often be younger people who would take less notice of this additional benefit or consider it comparable to additional salary.

4. If there are demands for higher salaries because of competitive disadvantage with the private sector, should not consideration be given to increasing the salary but lessening, or even removing, the inflation-proof pension?. There is a read-across here with plans for pensions generally, for I think it would be politically very difficult to cap private pensions but leave the civil service pension as it is.

*Jc*  
JUDITH CHAPLIN



Ch/

I understand PMG may wish to have a word with you on the margins of Prayers about the CPSA's merger plans and political affiliation.

@15

[CSA merger by  
means of a union  
which is affiliated  
to the political  
party]

Handwritten signature or scribble in black ink, consisting of a looped top and a long, sweeping tail.





Ch

I'm not sure of practicalities, but there must be a strong case for no across-the-board pay increase in 1989, with the whole of the amount that can be afforded\* channelled into flexible pay, local pay additions etc etc. Not only meets particular problems of C.S. but also sets example to others.

(\* and quite a bit is pre-empted by IPCS, 5-7 etc agreed increases).



FROM: C W KELLY  
DATE: 20 December 1988

CHANCELLOR

cc: Sir Peter Middleton  
Dame Anne Mueller  
Ms Seammen  
Mrs Chaplin

KELLY  
To  
CH/EX  
20/12

#### CIVIL SERVICE PAY AND STAFFING

We had not previously seen the note about staff shortages attached to Sir Robin Butler's minute to the Prime Minister of 20 December and it is more than a little offside for him to have circulated it without showing it to us first.

2. Had he done so, we might have made a number of suggestions, including in particular the adding of a health warning about vacancy statistics. Now that departments no longer control through manpower ceilings complementing figures have ceased to have the same operational significance and some vacancies are harder than others. Whatever they may say to their managers, the centres of some departments would by no means want to fill all of their vacancies even if they could, and often would not have the money to pay for it anyway. The Ministry of Defence is probably the most prominent example of this phenomenon.

3. Be that as it may, the conclusions of the paper - that there are some serious difficulties in London and the South East, though in some departments the situation is improving, that overall the figures do not support the case for across the board solutions and that the right approach is further extension of current flexibilities to meet problems in specific grades and locations - is helpful and in line with our own views.

4. Sir Robin Butler is unlikely to dispute this at the meeting. What he is more likely to say is that on the one hand the Treasury's apparent willingness to discuss flexibilities in principle is not always matched by equal readiness to deliver in

C O N F I D E N T I A L

practice (especially where additional running costs are involved) and that on the other hand departments are over ready to make complaints about general levels of pay without first doing all they can to exploit flexibilities that already exist or to make full use of alternative non-pay approaches. We would have no difficulty in endorsing the latter proposition.

*CWK*

C W KELLY



10 DOWNING STREET  
LONDON SW1A 2AA

✓ ✓ *[Handwritten signature]*

From the Principal Private Secretary

21 December 1988

CH/EXCHEQUER	
REC.	22 DEC 1988
ACTION	MR KELLY ✓ 22/12
COPIES TO	CST, PMG
	SIR P MIDDLETON
	SIR T BURNS
	DAVE A MUELLER
	MR ANSON
MR EDWARDS, MR LUCE, MR CHIVERS	
MS SEAMEN, MR GRAHAM, MR HARROP	
MR DE BERKER, MR BELL, MR LAWSON, MRS CHAPLIN, MR KEMP-OMCS	

*Dear Alex,*

CIVIL SERVICE PAY

The Prime Minister held a meeting today to discuss Civil Service pay. Present were the Chancellor of the Exchequer, Sir Robin Butler and Sir Peter Middleton.

The Chancellor of the Exchequer said that, although there had been difficulties in some parts of the public sector, the pay of the Civil Service had been restrained. Some progress had been made in developing more flexible pay structures. A number of long term pay agreements had been established. For the next pay round, the corollary of greater flexibility was a smaller general increase, though that would not be easy to achieve with inflation at its present level.

In discussion the need for flexibility at different levels was identified. There were problems with high flyers where an ability to offer additional increments might make the difference between retention and loss, though it was difficult to deploy such flexibility without creating dissatisfaction amongst those who had not sought to leave. There were problems for particular grades, e.g. HEOs in Customs and Excise; for particular specialisms, e.g. tax inspectors; or for particular locations. It was agreed that flexibilities should be further developed which could cope with all these situations. Sir Peter Middleton said he was hopeful that a long term pay agreement would soon be agreed with clerical and executive grades. It was essential where special and local pay additions were agreed that this was within tight running cost limits. If provision were increased the incentives on Departments to relocate would be removed.

Sir Robin Butler accepted that running cost limits should be held though where relocation was undertaken help should be given to meet with the once and for all costs. He also urged the Treasury to resolve cases put to it by Departments as promptly as possible.

Discussion then turned to the problem of housing costs in London and the South East. It was recognised that there was a balance to be struck. Full compensation for higher housing costs would simply fuel house prices in the South East; but insufficient compensation in the face of competition from other employers would mean severe staff shortages for the Civil Service. The Chancellor felt that the Government's main response should be through pay whether in the form of London Weighting or local pay additions.

Sir Robin Butler suggested a shared equity scheme by which the civil servant took out a full mortgage from a building society and the Government met part of the interest and capital repayments in return for a proportionate share in the equity of the house. It was agreed to investigate shared equity schemes further though it should not be the Government which took the equity share. One possibility would be to encourage the formation of housing associations to perform this role. It was also agreed to examine the case for giving civil servants under the age of eighteen the full London Weighting. Finally it was agreed that ways of giving more help with season tickets should be explored, e.g. by negotiating a group discount for civil servants with BR.

I am copying this letter to Sir Robin Butler and Sir Peter Middleton.

*Your sincerely  
Andrew*

Andrew Turnbull

Alex Allan Esq  
HM Treasury.

CONFIDENTIAL

FROM: MS D J SEAMMEN

DATE: 21 December 1988

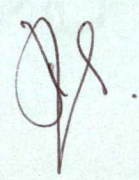
- 1. MR KELLY <sup>22.12</sup>
- 2. CHANCELLOR

- cc Chief Secretary
- Paymaster General
- Sir P Middleton
- Mr Anson
- Dame Anne Mueller
- Mr Phillips
- Mr Luce
- Mr Kelly
- Mr Chivers
- Mr Graham
- Mrs Harrop
- Mr Bell

CIVIL SERVICE PAY

There is just one loose end to tidy up, following your meeting with the Prime Minister. I attach a draft letter to Mr Younger.

*Can you...*  
*Chy*  
*OK - Per*  
*Issues*  
*in hand*



MS D J SEAMMEN

OK? As this has been  
 around for some time  
 while we waited for the No 10  
 interest to be sorted out, so it  
 might be nice to avoid further  
 delay. We have kept copy +  
 cd T and T on yr behalf if you  
 are content.

*M. J. W.*  
 —

SEAMMEN  
 →  
 CX  
 21/12

pt type final  
for ch.

DRAFT LETTER TO: GEORGE YOUNGER, MOD  
FROM: CHANCELLOR

1988-89 PAY

*E* 1. I am sorry not to have replied before to your letter of 14 November.

2. I am glad to have your endorsement of the general thrust of our policy on civil service pay, and your welcome for the recent IPCS settlement. Clearly, we need to be able to respond to market pressures with a flexible pay policy, designed to reward performance and scarce skills, and to vary pay according to the needs of recruitment and retention and motivation, without resorting to unacceptably expensive across-the-board increases.

3. It is of course important, as you say, that our message should be consistent. So long as the Armed Forces Pay Review Body maintains outdated notions of comparability this will be the more difficult; we will, I am sure, want to maintain the pressure on them to give primary place to recruitment and retention factors.

4. I am aware that some departments have difficulty recruiting and retaining staff in London in particular. As you know, we have this year increased London Weighting by 14 per cent, introduced local pay additions, and given a special London rate to IPCS

grades under the recent settlement. We shall continue to keep the London problem very much in mind. But all departments need to address relocation possibilities very seriously.

5. I am copying this letter to the Prime Minister, to other members of MISC 66 and to Sir Robin Butler.



10 DOWNING STREET

LONDON SW1A 2AA

EX-CHEQUER	
22 DEC 1988	
MR KELLY	
EST, AIG	
SIR P MIDDLETON	
SIR T BUTLER	
DAVE A MUELLER	
MR ANSON	
MR EDWARDS	
MS SEAMON	
MR DE BERNER, MR	
CIVIL SERVICE PAY	

The Prime Minister held a meeting today to discuss Civil Service pay. Present were the Chancellor of the Exchequer, Sir Robin Butler and Sir Peter Middleton.

The Chancellor of the Exchequer said that, although there had been difficulties in some parts of the public sector, the pay of the Civil Service had been restrained. Some progress had been made in developing more flexible pay structures. A number of long term pay agreements had been established. For the next pay round, the corollary of greater flexibility was a smaller general increase, though that would not be easy to achieve with inflation at its present level.

In discussion the need for flexibility at different levels was identified. There were problems with high flyers where an ability to offer additional increments might make the difference between retention and loss, though it was difficult to deploy such flexibility without creating dissatisfaction amongst those who had not sought to leave. There were problems for particular grades, e.g. HEOs in Customs and Excise; for particular specialisms, e.g. tax inspectors; or for particular locations. It was agreed that flexibilities should be further developed which could cope with all these situations. Sir Peter Middleton said he was hopeful that a long term pay agreement would soon be agreed with clerical and executive grades. It was essential where special and local pay additions were agreed that this was within tight running cost limits. If provision were increased the incentives on Departments to relocate would be removed.

Sir Robin Butler accepted that running cost limits should be held though where relocation was undertaken help should be given to meet with the once and for all costs. He also urged the Treasury to resolve cases put to it by Departments as promptly as possible.



Discussion then turned to the problem of housing costs in London and the South East. It was recognised that there was a balance to be struck. Full compensation for higher housing costs would simply fuel house prices in the South East; but insufficient compensation in the face of competition from other employers would mean severe staff shortages for the Civil Service. The Chancellor felt that the Government's main response should be through pay whether in the form of London Weighting or local pay additions.

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I am copying this letter to Sir Robin Butler and Sir Peter Middleton.

*You means*  
*Andrew*

Andrew Turnbull

Alex Allan Esq  
HM Treasury.



Treasury Chambers, Parliament Street, SW1P 3AG  
01-270 3000

30 December 1988

Rt Hon George Younger MP  
Secretary of State for Defence  
Ministry of Defence  
Main Building  
Whitehall  
LONDON  
SW1A 2HB

cc: Chief Secretary  
Paymaster General  
Sir P Middleton  
Mr Anson  
Dame A Mueller  
Mr Phillips  
Mr Luce  
Mr Kelly  
Ms Seammen  
Mr Chivers  
Mr Graham  
Mrs Harrop  
Mr Bell

*Dear Secretary of State*

*S  
Adler*

1988-89 PAY

I am sorry not to have replied before to your letter of 14 November.

I am glad to have your endorsement of the general thrust of our policy on civil service pay, and your welcome for the recent IPCS settlement. Clearly, we need to be able to respond to market pressures with a flexible pay policy, designed to reward performance and scarce skills, and to vary pay according to the needs of recruitment and retention and motivation, without resorting to unacceptably expensive across-the-board increases.

It is of course important, as you say, that our message should be consistent. So long as the Armed Forces Pay Review Body maintains outdated notions of comparability this will be the more difficult; we will, I am sure, want to maintain the pressure on them to give primary place to recruitment and retention factors.

I am aware that some departments have difficulty recruiting and retaining staff in London in particular. As you know, we have this year increased London Weighting by 14 per cent, introduced local pay additions, and given a special London rate to IPCS grades under the recent settlement. We shall continue to keep the London problem very much in mind. But all departments need to address relocation possibilities very seriously.

CONFIDENTIAL

CONFIDENTIAL



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

Yours sincerely

*Jonathan Trope*

pp. **NIGEL LAWSON**

[ Approved by the Chancellor  
and signed in his absence ]

CONFIDENTIAL

CONFIDENTIAL



BF  
23/1

CH/EXCHEQUER	
REC.	16 JAN 1989
ACTION	MR KELLY
COPIES TO	CST, PFI
	SIR P MIDDLETON, SIR BURN DAME A MUELLER, MR AXON MR EDWARDS, MR LUCE MR CHEWERS, MR SHAMMEN MR GRAHAM, MRS HARROP MR DE BERRER, MR BELL, MR LAWSON, MRS CHARLES, MR WEMP-OMCS
16 January 1989	

MO 5/24L

MINISTRY OF DEFENCE WHITEHALL LONDON SW1 2HB

TELEPHONE 01-218 9000

DIRECT DIALING 01-218 2111/3

Ch/ Tedious. And short on constructive suggestions.  
Mr Kelly will advise.

Dear Nigel,

CIVIL SERVICE PAY

I am grateful for your letter of 30th December in reply to mine of 14th November about Civil Service pay.

I have to say, though, that your letter does not seem to me to take adequately on board the gravity of the staff problems Departments face in London and the South-East. These problems go far beyond mere administrative inconvenience. If they are allowed to continue, the practical penalties we are already paying in the running of our business will become increasingly severe and increasingly dangerous. Some useful palliative things have been done, as you note; but I see no evidence, and frankly no significant probability, that they amount to enough to bring us back into contention in the labour markets where we have to work, especially given the demographic trough which is nearly upon us. We must indeed pursue relocation options; but neither the scope nor the timescale of these can remove the fact of an immediate and major difficulty besetting our work.

I fully recognise that we cannot simply react with the sweeping emergency action which any private firm would take in such a situation; we have to weigh wider repercussions, notably on our

The Rt Hon Nigel Lawson MP

CONFIDENTIAL



anti-inflation strategy. But we ought at the very least to be clear and candid with ourselves about the trade-offs we are making, and their implications. I strongly urge that the options you develop for the handling of the forthcoming Civil Service pay round should reflect the case for an offer sharply related to a hard-headed management view of market realities (including their wide difference across the country); and that there should be opportunity for some collective discussion before the Government's course is set.

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

Yours wes,  
George.

George Younger

*at the bottom  
from the copy*

Ch/ An unexpected ally -  
his motives are of course  
beyond reproach!

JPWP



015

SCOTTISH OFFICE  
WHITEHALL, LONDON SW1A 2AU

**CONFIDENTIAL**

The Rt Hon George Younger MP  
Secretary of State for Defence  
Ministry of Defence  
LONDON  
SW1A 2HB

CH/EXCHEQUER	
REC.	26 JAN 1989
ACTION	MR KELLY ✓ 26/1
COPIES TO	CST, PMG SIR P MEDDLETON, SIRT BURNS DAME A MUELLEN, MR ANSON MR EDWARDS, MISS SEAMEN MR DE BECKER, 26 January 1989 MRS CHARLES, MR LUCE MR CHEVENS, MR GRAHAM MRS HARROP, MR BELL, MR LAWSON, MR KEMP - OMCS

Dear George,

**1988-89 PAY**

I have been following with interest your recent exchange of correspondence with Nigel Lawson about civil service pay.

I confess I am a little surprised that you do not make more of the relocation option. I appreciate of course that you do already have substantial relocation plans, as you pointed out in your letter of 14 November. But against the background set out in your correspondence I wonder if there is not scope for an even greater effort. The benefits of relocation in terms of public expenditure, the national and local economies and the career satisfaction of staff, have been amply demonstrated in the study of the ODA dispersal to East Kilbride, published by my Department last year. In face of that evidence, any "hard-headed management view of market realities" - to quote your letter of 16 January - must I suggest include relocation as a top option. Such a view did, I know, strongly influence the DSS in taking their recent decision to move over 1,000 posts out of London. And your own Department's experience in this field - including the move already accomplished to Glasgow - has, I am sure, provided ample evidence of the benefits relocation can bring.

I hope therefore that you will feel able to consider relocation as a serious and viable solution to your current difficulties and that you can see your way to extending your current plans if at all possible.

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

Yours ever,  
Malcolm Rifkind

MALCOLM RIFKIND



10 DOWNING STREET  
LONDON SW1A 2AA

*From the Principal Private Secretary*

CH/EXCHEQUER	
REC.	27 JAN 1989
<del>ACTED</del>	
COPIES TO	Dame A Mueller
	Mr CW Kelly

✓ 27/1

Ch  
 Good ✓✓  
 AA  
 pmf

SIR ROBIN BUTLER

BUSINESS

The Prime Minister was content with the proposals for Cabinet and Cabinet Committee business for the next three weeks with the exception of the proposal for a meeting of MISC 66 on Tuesday 31 January. You said that, as a general principle, the employing Departments should be given an opportunity to discuss pay and the way the flexibilities which were being secured under the new pay agreements would be operated. You reported that the Treasury thought the timing of a meeting next week would be wrong. The current pay negotiation was now in its final stages. They were also in direct discussions with the Secretary of State for Defence on the concerns expressed in his two minutes. After some discussion, it was agreed that the best course was to set up a meeting of MISC 66 after the Budget. This would enable Departments to discuss the tactics for the next round of negotiations and to take account of the picture that was emerging from the levels surveys.

I am copying this minute to Alex Allan (HM Treasury) and to Simon Sargent (Sir Peter Middleton's Office, HMT).

Andrew Turnbull

27 January 1989

CH/EXCHEQUER	
REC.	02 FEB 1989
ACTION	MR KELLY ✓ 212
COPIES TO	CST, PM 6 SIR P MIDDLETON, SIR T BURNES DAME A MULLER, MR ANDERSON MR EDWARDS, MS SEAMEN MR DE BERKOFF, MRS CHAPLEN MR LUCE, MR CHIVERS, MR GRAHAM MRS HARROP MR BELL

COVERING CONFIDENTIAL  
 MANAGEMENT IN CONFIDENCE



MINISTRY OF DEFENCE WHITEHALL LONDON SW1 2HB

MO 5/24L MR LANSLOW, MR KEMP - OMCS

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

31 January 1989

*PWP*

*Dear Malcolm,*

CIVIL SERVICE PAY 1988-89

Thank you for your letter of 26th January about Civil Service pay. I very much share your views on the importance of relocation. My departmental commitment to this policy is demonstrated by the fact that, in the 1988 survey of the Departmental Relocation Review, the Ministry of Defence is at the top of the list. I enclose a copy of this in case you have not seen it.

I am, of course, aware of the satisfactory outcome of the ODA dispersal to East Kilbride. We are enjoying many of the same benefits in our own much larger dispersal to Kentigern House in Glasgow. Moreover, these came as no surprise to us; the Ministry of Defence is a very large employer across the country as a whole, as the enclosed map shows. It was against this background, and the knowledge derived from it, that I wrote to Nigel Lawson on 16th January drawing attention to the gravity of the staff problems in London and the South-East. As I explained in that letter, neither the scope nor the timescale of relocation options can deal with these difficulties. For example, in the last year, our permanent clerical vacancies in London have risen by nearly 50%; well over one-third of our Administrative Assistant posts in London are vacant, with no

The Rt Hon Malcolm Rifkind QC MP

COVERING CONFIDENTIAL  
 MANAGEMENT IN CONFIDENCE





prospect of filling them in the foreseeable future. But I am afraid it is a delusion to believe that relocation will provide an immediate solution to this immediate problem.

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

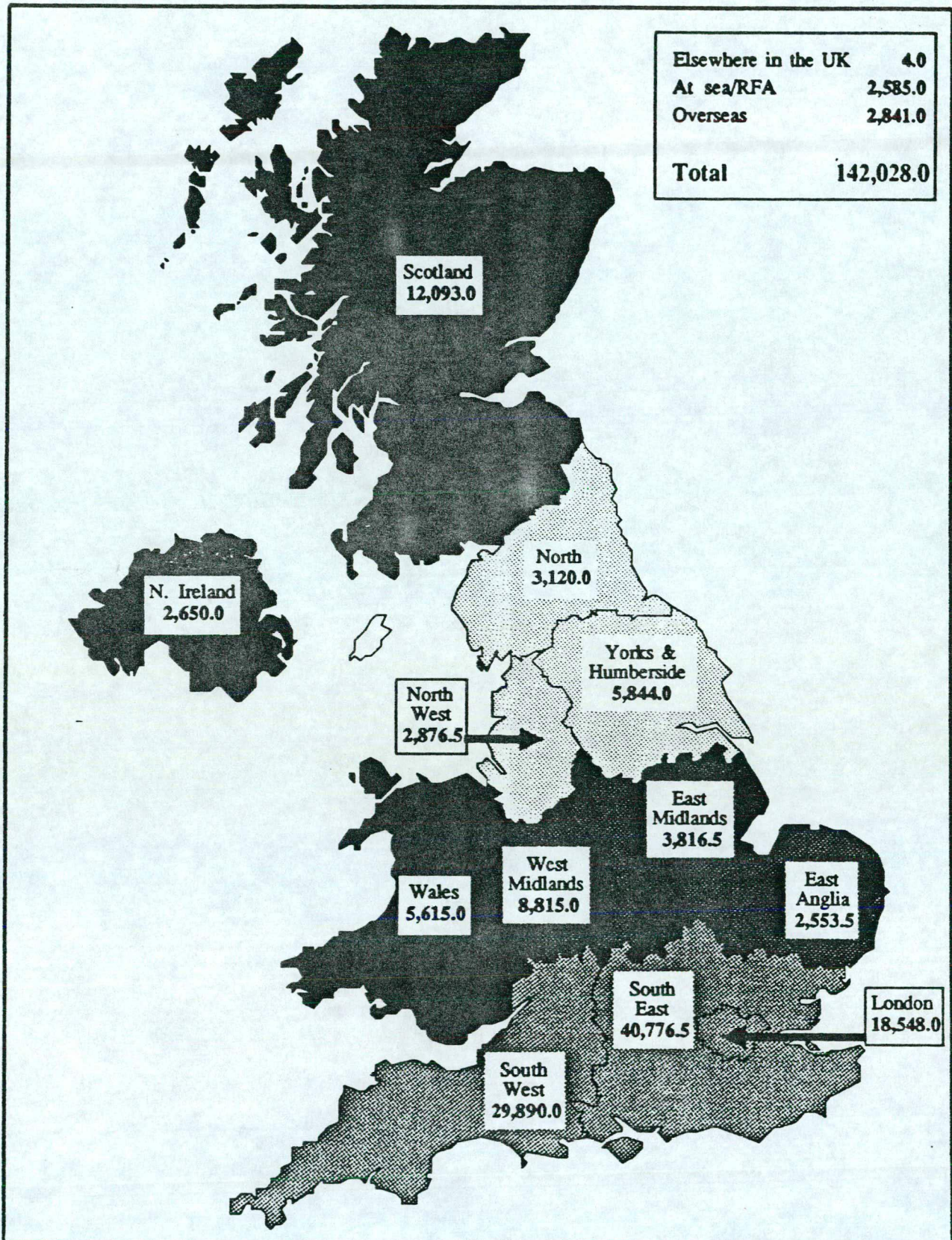
*Yours well,*

*George.*

George Younger

# UK BASED CIVILIAN STAFF BY ECONOMIC PLANNING REGION TOTAL STAFF

## MAP 1 : NUMBER OF STAFF AT 1 OCTOBER 1988



CONFIDENTIAL  
CONFIDENTIAL



1988 SURVEY: DEPARTMENTAL RELOCATION REVIEW  
(RELOCATION OF POSTS FROM LONDON AND THE SOUTH EAST)

DEPARTMENT	POSTS UNDER REVIEW
Ministry of Defence	6,100
Customs and Excise	5,700*
Inland Revenue	3,800*
DSS	upto 3,500
Home Office	3,400
FCO	2,600*
MAFF	2,500*
Land Registry	2,200
DTI	1,400
OPCS	1,400*
Employment Group	1,300
DES	1,230*
Department of Transport	1,100
IBAP	300
HM Treasury (incl CISCO)	300
DOE	300
LCD	200
CPS	150
ECGD	100
Charity Commission	100
Treasury Solicitor/LCD	90
<b>TOTAL</b>	<b>37,770</b>

\* indicates review process entirely or predominantly at Stage 1.



FROM: JULIE THORPE  
DATE: 31 January 1989

*[Handwritten signature]*

MR C W KELLY

cc Sir P Middleton  
Dame A Mueller  
Mr Anson  
Mr Robson  
Mr Lewis

CIVIL SERVICE PAY

The Chancellor is holding a meeting with the Secretary of State for Defence and Sir Michael Quinlan at 4.00pm, on Thursday 23 February, at No.11. Sir P Middleton will also be attending.

2. I will be grateful if you, and Mr Robson could provide suitable briefing by close of play on Tuesday 21 February.

*[Handwritten signature: julie thorpe.]*

MRS JULIE THORPE

→ PPS

PEM has suggested that Dame Anne Mueller should also be invited, if the Chancellor is invited.

*[Handwritten signature]* 3/2

CA  
OK? (not keen, but diff to refuse)

*[Handwritten notes in red ink:]*  
OK if Mary  
has no objection. *[Signature]*

Julie ←  
See overleaf  
Alex 4.00pm



on Thurs 23/2.  
at 12.11.  
Do we need to  
req any longqig

Julie ← Julie  
Please fix 30/1.

meeting

George Younger

Sir Michael Quinlan  
(per see MOD)

PEM.

on and some pay.  
Pick a quiet-looking  
period in about a couple  
of weeks. Allow 1 hour.

Alex

Julie,

Briefing from Kelly  
& Robson please, cc  
PEM, Mueller, Anson,  
Lune.

Alex

23/2



FROM: JULIE THORPE  
DATE: 31 January 1989

MR C W KELLY

cc Sir P Middleton  
Dame A Mueller  
Mr Anson  
Mr Robson  
~~Mr Lewis~~  
Mr Luce

CIVIL SERVICE PAY

The Chancellor is holding a meeting with the Secretary of State for Defence and Sir Michael Quinlan at 4.00pm, on Thursday 23 February, at No.11. Sir P Middleton will also be attending.

2. I will be grateful if you, and Mr Robson could provide suitable briefing by close of play on Tuesday 21 February.

*Julie Thorpe*

MRS JULIE THORPE



cc PS/Chief Secretary  
PS/Paymaster General  
Sir P Middleton  
Mr Anson  
Mr Byatt

Treasury Chambers, Parliament Street, SW1P 3AG  
01-270 3000

2 February 1989

Rt Hon George Younger MP  
Secretary of State for Defence  
Ministry of Defence  
Main Building  
Whitehall  
LONDON  
SW1A 2HB

Mr Monck  
Mr Phillips  
Mr Harris  
Mrs Lomax  
Mr Luce  
Mr Chivers  
Mr Hansford  
Mrs Haworth  
Mr G Jordan  
Mr Richardson  
Ms Seammen  
Mr Strachan  
Mr Barker  
Mr Graham  
Mr Bell  
Mrs Luckin

*George Younger*

**CIVIL SERVICE PAY IN LONDON**

You may know that your department has been participating in an interdepartmental group on London Weighting chaired by the Treasury. Your officials have a copy of the report which the group has now made to me. It is a thoughtful and substantial piece of work addressed to issues which you have yourself raised with me.

The group's main recommendation is that the recruitment and retention position in London justifies an increased differential in Civil Service pay in favour of London and that the most cost-effective way of achieving this is through a combination of steps taken under the flexible pay agreements and local pay additions, with the implication that London weighting should be left largely to wither on the vine. I accept this conclusion. It is likely, as you know, to be reflected in the outcome of the negotiations we have been having with the NUCPS and CPSA about long-term pay agreements.

The Group also recommend an increase in the ceiling for LPA payments from £600 to £1,000. I intend to accept this too, on the understanding that all payments of LPAs have to be absorbed within the existing running costs. My officials will be in touch about the details. Some departments would have liked to have gone further. But I think that would have been premature at this

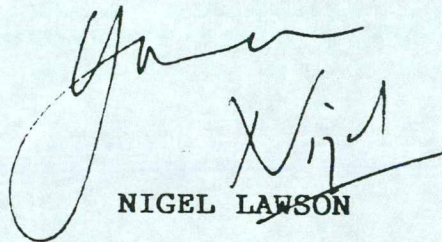




stage. The combination of payments under the long-term pay agreements and the higher ceiling for London will make it possible for quite substantial additional payments to be made on a selective basis in London in areas of particularly severe recruitment and retention difficulties.

I also propose to accept the Group's recommendation that the lower juvenile rate of London Weighting should be abolished and the full rate paid to all staff.

I am copying this letter to Cabinet colleagues and to Sir Robin Butler.

  
NIGEL LAWSON

## SPECIFIC RECOMMENDATIONS OF WORKING GROUP

(i) The rules, including the boundaries, for adult London Weighting should not be changed, even to remove anomalies.

(ii) The lower rate for those under 18 should however be removed, and the full rate paid. All departments want to attract some of the declining number of school leavers.

(iii) Some of the Local Pay Addition rules should be relaxed. In particular, the ceiling should be increased from £600 to £1000, and LPAs should be more readily available to some more senior grades and to IPCS grades where there is a need. These changes must however be linked with fuller accounts to the Treasury of how the cost of any proposals would be found from within departments' existing running costs provisions, as well as the case on recruitment and retention grounds.

(iv) On the housing front, the Treasury should circulate to departments information about mortgage opportunities available on the market, but departments should not give explicit or implicit guarantees of mortgages or enter into equity participation schemes. Consideration should be given to 6 months' salary advances for staff buying property, but this would have to be used selectively because of the potential cost. Hostel accommodation eg for new entrants is another possibility to pursue; a feasibility exercise in Croydon has started.

(v) The existing scheme for interest-free season ticket loans should be publicised more widely, and given more emphasis in recruitment literature.

(vi) The need for further improvements to the financial package for civil servants moving location for management reasons should be kept under review.

FROM : D C W SLAUGHTER  
DATE : 3 FEBRUARY 1989

PS/CHANCELLOR

cc PS/Chief Secretary  
PS/Paymaster General  
Sir P Middleton  
Sir T Burns  
Dame A Mueller  
Mr Anson  
Mr Robson  
Mr Luce  
Miss Seammen  
Mr Fox  
Mr Chivers  
Mr Hansford  
Mr de Berker  
Mr Graham  
Mr Bell  
Mr Kemp - OMCS

*pwp*  
*Civil Service*  
*Pay -*

SLAUGHTER  
→  
PS/cx  
3/2

1988-89 PAY

The Secretary of State for Scotland sent the Chancellor a copy of his letter of 26 January to the Secretary of State for Defence.

Mr Rifkind's letter urges Mr Younger to consider extending his relocation plans as a means of alleviating MOD's recruitment and retention problems in the South East. The implication is that MOD should be moving more posts to Scotland.

MOD are currently considering proposals to relocate 6,100 South East based staff. This represents 10% of their civilian workforce in the area. It is probable that the bulk of these relocations will be to the North and West of England, rather than Scotland. We are keeping in close touch with MOD on the development of their plans, to ensure that there are no unnecessary delays and that the moves can be justified on financial grounds. DM will provide briefing on these points for the meeting which the Chancellor is holding with Mr Younger and Sir Michael Quinlan on 23 February.

There is no need for the Chancellor to intervene in this correspondence. We understand that Mr Younger is planning to respond in strong terms to Mr Rifkind, pointing to his current relocation proposals, and to the large number of MOD staff who are already based in Scotland. Any points arising from the letter can be covered at the 23 February meeting.

D C W SLAUGHTER



*Handwritten:* a Mr Lawson  
 Would you like to take the action some of this?  
 Mr Fox cc Mr Kelly  
 P4 deal  
 SCOTTISH OFFICE  
 WHITEHALL, LONDON SW1A 2HB  
 22/1

**CONFIDENTIAL**

The Rt Hon George Younger MP  
 Secretary of State for Defence  
 Ministry of Defence  
 LONDON  
 SW1A 2HB

ATTACHE	
TEL.	25 JAN 1989
TO	MR KELLY
FROM	CST, DMG
INFO	SIR P MEDOLETON, SER T BURRO DAME A FLETCHER, MR ANSON MR EDWARDS, MISS SEANMEN MR DE BECKER, MR LUCE MRS CHAPMAN, MR GRAHAM MRS HARROP, MR BELL, MR LAWSON, MR KEMP - OMCS

*Handwritten:* Mr Fox cc Mr Kelly  
 Mr Carpenter  
 I think it is more for DM 16 advise on MOD's potential here. Do you agree?  
 30/1

*Handwritten:* Dear George,

**1988-89 PAY**

I have been following with interest your recent exchange of correspondence with Nigel Lawson about civil service pay.

I confess I am a little surprised that you do not make more of the relocation option. I appreciate of course that you do already have substantial relocation plans, as you pointed out in your letter of 14 November. But against the background set out in your correspondence I wonder if there is not scope for an even greater effort. The benefits of relocation in terms of public expenditure, the national and local economies and the career satisfaction of staff, have been amply demonstrated in the study of the ODA dispersal to East Kilbride, published by my Department last year. In face of that evidence, any "hard-headed management view of market realities" - to quote your letter of 16 January - must I suggest include relocation as a top option. Such a view did, I know, strongly influence the DSS in taking their recent decision to move over 1,000 posts out of London. And your own Department's experience in this field - including the move already accomplished to Glasgow - has, I am sure, provided ample evidence of the benefits relocation can bring.

I hope therefore that you will feel able to consider relocation as a serious and viable solution to your current difficulties and that you can see your way to extending your current plans if at all possible.

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

*Handwritten signature:* Yours ever,  
 Malcolm Rifkind

**MALCOLM RIFKIND**

*Handwritten:* 11  
 208

*Handwritten:* 240  
 90



cc Sir P Middleton

*Julie*  
*you are having*  
*meeting post*  
*Alex*

Budget H M Treasury  
Parliament Street London SW1P 3AG

Switchboard 01-270 3000  
Direct Dialling 01-270 4430

*For PEP*  
*blatant on*  
*Monday*

*you*  
*pr...*  
*...*

Chancellor of the Exchequer  
HM Treasury  
Parliament Street  
LONDON SW1P 3AG

6 February 1989

*u*  
*shall I have a meeting?*

Dear Chancellor,

*[I shall speak re x*  
*when convenient]*

*AA*

PAY

I discussed recently with Peter Middleton the need for higher pay for grade 7s and others in H M Treasury.

There is a strongly held and widespread view amongst staff in FDA grades in the Treasury that pay has become a major problem. This letter sets out why.

Falling Living Standards

Last September we circulated a paper that showed the extent of the fall in living standards of a new grade 7 in recent years. For example, up to five years ago, a grade 7 could buy a terraced house in London on a mortgage three times salary; now this would require savings equivalent to three years' disposable income. In practice, grade 7s live in much worse accommodation, in areas with higher levels of violence and poorer schooling by comparison with 5-10 years ago.

Outside the Civil Service, the private sector has become much more willing to pay high salaries for those in short supply, and for those with ability. So just at the time that Civil Service salaries have become less competitive, the need for more competitive salaries in some areas has become more acute.

Annex  
C

## Retention

Retaining Treasury people in the face of outside competition has become much more difficult:

(i) The TSRB 1988 Report noted that 30 out of 98 fast stream grade 7s left HMT in the three years 1985-87: an average loss of 10 per cent per year, higher than any other Whitehall department; compared with a Civil Service average of 2½ per cent.

(ii) Amongst macro economists, resignations in 1988 (grade 7s and assistants) reached some 30 per cent of the stock.

## Consequences

Higher levels of resignations and turnover lead to falling levels of experience. Staff shortages and inadequate support, in an increasingly poor environment, compound the problem by increasing workloads and diluting their quality. As a result, and in the face of low relative pay and little payment for overtime, there is increasing reluctance to work the long hours that the Treasury often demands.

I - and the vast majority in FDA grades - believe that the quality of the Treasury's work is suffering and will suffer more. As you know, Treasury staff take pride in the quality of their work: it is an important factor weighing against the attractions of higher pay outside. But the prospect of a progressive decline in the quality of the department's work, and - partly as a result - in the work we ourselves can expect to do, and in the kind of support we can expect - all this must now be taken into account. We know that this has been a factor in the decisions of many colleagues who have left.

You will be the last to experience these problems at first hand. But they already exist. Recently about 150 people in the Treasury in FDA grades signed minutes to senior officials, carrying the message that performance is already suffering and at present pay levels can only suffer more.

## Solutions

We have put the evidence on retention and on living standards to Peter Middleton and David Butler. We have not had a detailed rebuttal.

Let me suggest, as I have to Peter Middleton, three ways of making a response to present problems:

(i) Use the flexible pay provisions, as has been done for tax inspectors and lawyers, to move the grade 7 span up the spine.

(ii) Ensure that the national levels survey this year can be used to provide a subset of comparisons relevant to Treasury officials.

(iii) Reform the overtime system, especially for grade 7s. You may find it hard to believe that grade 7s only get paid overtime if they work more than 60 excess hours in six consecutive weeks on a particular piece of work - and when they manage to clear those hurdles, the hourly rate of pay is about half the grade 7 minimum: about £4 an hour!

In short, I would urge you to apply your market orientated approach to pay in the Treasury itself.

I would very much like to talk to you about these issues. I hope a meeting can be arranged soon.

Yours ever  
Hew

H P EVANS

*It certainly isn't you!*  
*Apply to*

MINISTERIAL  
CORRESPONDENCE

SF/Conf/17

CONFIDENTIAL



Department of Employment  
Caxton House, Tothill Street, London SW1H 9NF

Telephone 01-273 . . . 5803  
Telex 915564 Fax 01-273 5821

Secretary of State

CH/EXCHEQUER	
REC.	108 FEB 1989
ACTION	MR KELLY
COPIES TO	CST, PMG
	SER P MIDDLETON
	MR ANSON
	DAME A MUELLER
	MR LUCE
	MR SEMMEN
	MR GRHAMPT

FOWLER  
→  
CX  
7/2

✓ 8/2

*ppf*

✓

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

*Feb 7*

*Dear Nigel*

**CIVIL SERVICE PAY : EXECUTIVE AND CLERICAL GRADES**

The agreement with the NUCPS and the coming similar deal with the CPSA are encouraging further developments of the new pay fixing arrangements in the civil service. They are fully in tune with the approach to pay of progressive employers which we have been advocating, and they demonstrate the Government's ability to lead by example.

From a management standpoint, the new flexibilities will help us make an early response to the London problem and, on a slightly longer timescale, performance-related rewards could do much to raise standards among this large and important group of staff. I particularly welcome the prospect of developing more appropriate pay within agencies.

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Employment Department · Training Agency  
Health and Safety Executive · ACAS



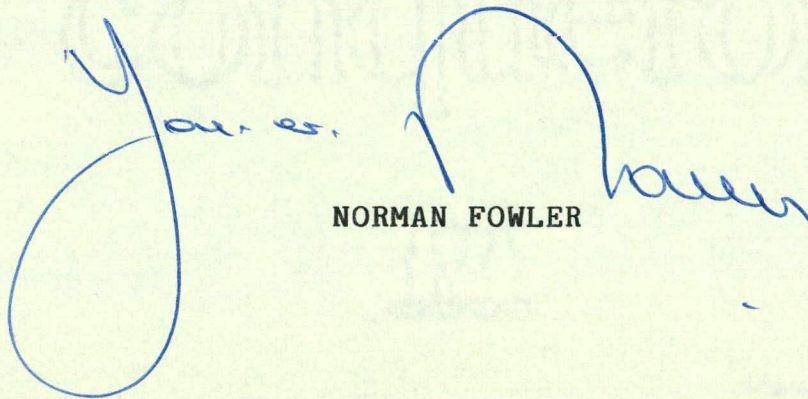
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Secretary of State  
for Employment

The proof of these agreements' value will of course be shown by their results. Above all, we need to ensure that cost-effectiveness is carefully monitored so that in time we can evaluate results objectively. That is a central conclusion of papers produced by my Department's officials surveying experience to date with performance and geographical pay across the public sector as a whole. Those papers have been agreed in the relevant officials committee and are to be circulated to E(PSP) shortly.

I am copying this letter to the recipients of your minutes of 24 and 31 January to the Prime Minister.

A handwritten signature in blue ink, appearing to read 'Norman Fowler', written over the typed name.

NORMAN FOWLER

CONFIDENTIAL

FROM: C W KELLY  
DATE: 8 FEBRUARY 1989

PRINCIPAL PRIVATE SECRETARY

cc Sir Peter Middleton  
Dame Anne Mueller  
Mr Chivers  
Miss Seammen

KELLY  
→  
PPS  
8/2

⇒ Alex

Jonathan  
Please deal.  
Aba

MISC(66)

It seems inevitable, in the light of Mr Turnbull's minute of 27 January, that we now have to have a meeting of MISC(66) after the Budget.

2. If we are to have such a meeting, it would suit us best if it took place sooner rather than later. We certainly do not want to wait until we can take account of the picture emerging from the levels surveys for the IRSF and Grades 5-7, as suggested in the minute. By then (end June/early July) we will already have begun negotiations. What would be much better would be some kind of general discussion before we start.

3. That would suggest a meeting some time in April, or early May.

4. I have already suggested this to the Cabinet Office, after a brief discussion with Sir Peter Middleton and Dame Anne Mueller. They have tactfully said that they would be grateful for confirmation from you, before going ahead and setting it up.

5. I imagine that the Chancellor will want us to provide some form of paper, perhaps in the form of an annotated agenda. We will set this in hand nearer the time.

CL  
OK? /  
AA  
OK

CWK

C W KELLY

*PM question*

*pyr*

FROM: J GRAHAM

DATE: 9 February 1989

PS/CHANCELLOR

cc PS/Chief Secretary  
PS/Paymaster General  
Sir P Middleton  
Mr Anson  
Dame Anne Mueller  
Mr Kelly/Ms Seammen  
Mr Gieve  
Mr Flitton

CPSA: NEW LONG TERM FLEXIBLE PAY DEAL

1. The FT article of today reporting that the Treasury had agreed pay rises of up to 19 per cent over 18 months for secretarial and clerical is misleading in a number of respects:

- most CPSA grades will not be getting anything like 19 per cent; most will get around 6-8 per cent;
- larger increases are going to staff in London (around one-fifth of the total) and experienced clerical staff at the maximum of the scales;
- the 19 per cent is a phony figure. It adds up
  - (a) this year's biggest increases of around 9-11 ½ per cent targeted on experienced clerical staff;
  - (b) the CPSA's guess that next April settlement will give a further 5 per cent; and
  - (c) a further 3½ per cent in June 1990 when a further and final half point is added to the scale.

2. The 1988-89 cost is 6 per cent excluding London and up to 7 per cent including London. These first year costs include the extra half point worth 3½ per cent at the top of scales. And for the 1990 settlement we have agreed with CPSA that the cost of the additional and final ½ point extension will be counted against

(ie reduce) the inter-quartile range constraint that will bind the April 1990 settlement. The FT has it quite wrong in suggesting the Treasury made a concession here - on the contrary, we have gained a very important point by constraining next year's settlement by the IQ range of private sector settlements.

3. CPSA have accepted, against previous conference decisions the idea of flexible pay. Under this system staff will inevitably get different increases. CPSA have also accepted as part of the package again against previous conference decisions, no unilateral access to arbitration etc.

4. The Daily Mail article below presents a much more favourable interpretation.



**J GRAHAM**

slapped the cuffs on, Wilkins, break it to the gentleman he'll only be on police records, not real T.V.'

## REWARDS FOR RESULTS IN WHITEHALL

# Now civil servants will be paid by their performance

CIVIL Service leaders yesterday agreed a deal that could rid Whitehall of its clock-watching, tea-drinking image.

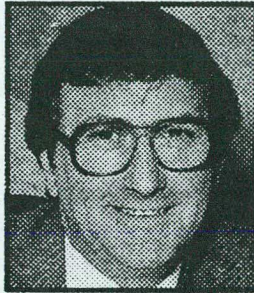
The Civil and Public Services Association is ready to accept a pay and performance system which will mean cash bonuses for top achievers.

It is being seen as a major breakthrough by Treasury chiefs, who are the civil servants' employers. This time last year, such a deal would have been impossible.

The 150,000-strong CPSA — the biggest Civil Service union — was then dominated by militants, who controlled its ruling executive and were bitterly opposed to performance incentives.

Then last May the moderate faction, headed by general secretary John Ellis, seized back control and the way was clear for yesterday's deal.

If the offer is accepted by the membership, it will mean that the CPSA's mainly low-ranking clerical grade workers can earn more by



John Ellis: Moderate

By DAVID NORRIS  
Industrial Correspondent

putting in greater effort. The deal involves a general 4 per cent rise from April 1, with a performance-linked increase — still to be finalised — in October.

Further rises will follow in April and June next year.

Last night Mr Ellis said he was confident his members would vote in favour next month.

Government scientists, who are members of the Institution of Profes-

sional Civil Servants, have already accepted performance-related pay, as have tax inspectors and very high-grade Whitehall staff.

Only one organisation, the National Union of Civil and Public Servants, which represents middle-ranking executive officers, has still to accept the concept. The union's executive meets tomorrow.

If it accepts the offer, the entire 500,000 Whitehall white collar workforce will have gone over to the idea of bigger rewards for increased performance.

It signals a complete transformation of the Civil Service — turning it from a safe and secure career with little incentive for flair and effort — into the type of dynamic organisation so admired by Mrs Thatcher.

### Competing

It means that staff in Government offices will, for the first time, be competing to come out top of the pay league, by showing their bosses they are the best.

It means that staff in Government offices will, for the first time, be competing to come out on top of the pay league.

Performance-related pay is becoming more and more widespread in private industry.

Banks and building societies are steadily introducing it.

Tractor manufacturer Massey Ferguson is on the point of bringing it in for its 250 clerical staff.

### Young's offer

TWENTY Soviet executives are to be treated to a free course at the London Business School. Trade Secretary Lord Young, who has accepted an invitation to go to Moscow, said the Government was funding the course to improve Anglo-Soviet trade relations.



### THIS WEEK IN THE MAIL

## SPEND! SPEND! SPEND!

Femail Consumer Test on just how easy it is to get those big store credit cards

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# Up to 19% rise for civil servants

By John Gapper, Labour Correspondent

ABOUT 195,000 junior civil servants are to receive pay increases of up to 19 per cent over the next 18 months under a long-term flexible pay deal provisionally agreed with the Treasury, the CPSA civil service union said yesterday.

The deal will add 7 per cent this year to the pay of the secretarial and clerical staff involved. The union said the cost would be raised by a private sector pay comparison exercise in April next year and extra payments linked to performance and long service.

The deal is likely to increase upward pressure on private sector pay, although the Treasury said it had gained flexibility in return.

It said the cost in the 1988-89 financial year would be 7 per cent, in line with current private sector pay rises, and well above the increases of 4.5 per

cent awarded to the same grades in 1987 and 1988.

The deal represents an attempt by the Treasury to find a long-term solution to staffing problems among junior grades, particularly in London and the south-east, which have been hampering the work of some government departments.

The biggest rises will go to staff on the top of their present pay scales, who will receive two extra increases of 3.5 per cent — one in October and another in June 1990. The Treasury said about 65,000 staff were in that category.

The CPSA's national executive yesterday recommended the deal unanimously. It is to go to a membership ballot in March, but it is likely to be resisted by left-wingers because it allows local and performance pay variations.

As part of the deal, the Treas-

sury has conceded that the next stage of the increase will be firmly tied to the pay comparison in April next year. In previous long-term deals with other civil service unions, it did not accept this constraint.

London staff will receive an extra 7 per cent. Staff will keep any amount over £200 which they were given last year in the form of local pay supplements of up to £600.

The deal will take the pay of an administrative officer grade civil servant on the top of his or her grade with one year's service from £7,555 to £7,857 from April 1 and £8,305 on October 1.

The union estimated that those rates would rise a further 5 per cent in April next year as a result of the private sector comparison and another 3.5 per cent in June. The total rise would be 19.2 per cent.

## PAY BY PERFORMANCE FOR WHITEHALL

# Civil Servants stop clock-watching to win cash bonuses

Daily Mail

CIVIL Service leaders yesterday agreed a deal that could rid Whitehall of its clock-watching, tea-drinking image.

The Civil and Public Services Association is ready to accept a pay and performance system which will mean cash bonuses for top achievers.

It is being seen as a major breakthrough by Treasury chiefs, who are the civil servants' employers. This time last year, such a deal would have been impossible.

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John Ellis: Moderate

By DAVID NORRIS  
Industrial Correspondent

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### Dynamic

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Performance-related pay is becoming more and more widespread in private industry.

Banks and building societies are steadily introducing it.

Tractor manufacturer Massey Ferguson is on the point of bringing it in for its 250 clerical staff.

Handwritten scribbles in the bottom right corner.

MISC 66

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FROM: J M G TAYLOR  
DATE: 10 February 1989

TAYLOR  
→  
KELLY  
10/2

MR C W KELLY

cc Sir P Middleton  
Dame A Mueller  
Mr Chivers  
Ms Seammen

*pmf*

MISC(66)

The Chancellor has seen your note of 8 February.

2. He is content to go ahead with a meeting of MISC(66) some time in April, or early May. I have let Richard Wilson (Cabinet Office) know this.

*JMGT*

J M G TAYLOR

FROM: J GRAHAM  
DATE: 15 February 1989

PS/CHANCELLOR 12/2

cc PS/Paymaster  
Sir P Middleton  
Dame Anne Mueller  
Mr Kelly o/r  
Ms Seammen  
Mr Flitton

**NUCPS AND CPSA: NEW PAY ARRANGEMENTS**

Both unions are recommending their members to accept the new longer term flexible pay agreements offered by the Treasury last week. The endorsement by the CPSA executive was 'unanimous' and that by the NUCPS was backed by a 'substantial majority' in favour.

2. We expect to hear the result of the CPSA ballot by the end of March.

3. There was some uncertainty over how NUCPS would consult its members and whether the executive would decide to take the provisional agreement to conference. In the event NUCPS has decided on a workplace ballot and the result should be available in the first week of April.



J GRAHAM



UNCLASSIFIED

FROM: J M G TAYLOR  
DATE: 17 FEBRUARY 1989



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

MR GRAHAM

cc PS/Paymaster General  
Sir Peter Middleton  
Dame Anne Mueller  
Mr Kelly  
Ms Seammen  
Mr Flitton

NUCPS AND CPSA: NEW PAY ARRANGEMENTS

The Chancellor was grateful for your note of 15 February.

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

J M G TAYLOR

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MINISTRY OF DEFENCE

MAIN BUILDING WHITEHALL LONDON SW1A 2HB

Telephone 01-218 2193 (Direct Dialling)

01-218 9000 (Switchboard)

PERMANENT UNDER-SECRETARY OF STATE

SIR MICHAEL QUINLAN K C B

PUS/M89/199  
58/39

PERM. SEC'S. OFFICE	
RECEIVED	
22 FEB 1989	
Action	Ms Seanna
Copies	Ms Anne Mueller
To	Mr Kelly
	Mr Lohs

21 February 1989

Dear Sir Peter,

SPECIAL ALLOWANCE FOR CLERICAL STAFF - POSTS REQUIRING PV

I thought it might be helpful if I wrote to you about one matter which is likely to be raised by my Secretary of State during Thursday's meeting with the Chancellor to discuss pay.

2. My Secretary of State is becoming increasingly concerned by the deteriorating staffing situation at clerical level in our Defence Intelligence Staff (DIS), and the serious security consequences this could have. At present, 39% of our clerical posts in the DIS are vacant. Standards have already been reduced with some mandatory security procedures not being carried out. Outside the DIS, PV vacancies are running at 20%. There are also 13 vacancies for PS's with PV or EPV clearance, some of which have been vacant for a year. The situation is a direct consequence of our general inability to recruit and retain clerical staff in Central London\*, but the impact on the areas requiring PV staff has been disproportionately large.

3. A less serious situation than now exists prompted Richard Hastie-Smith, on 23 February 1988, to seek Treasury agreement to pay an allowance to all clerical staff who had been PV'd, in an attempt to build a pool of resources to staff the DIS and other sensitive areas sufficiently. However, Anne Mueller wrote back in July 1988 refusing to accept the proposal, but offering to increase the existing DIS allowance from £750 rising to £1000 after three years, to £1000 rising to £1500. At the same time, she recognised the MOD's concern and suggested the position be kept under review.

\* A year ago we had 525 permanent clerical vacancies; today that figure has risen to 593 out of a total complement of 2837. AA vacancies are now running at 39%. The decline continues despite the introduction of a £600 Local Pay Addition (LPA) for our London clerical staff.

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4. My Secretary of State and I consider that we have now given the revised DIS allowances a fair trial. We have also tried other measures, such as relaxing the minimum age for vetting, but there has been no visible sign of improvement. Furthermore the employment of agency staff (who cannot be PV'd) in less sensitive areas of the Department has not helped by freeing resources, despite a letter to staff inviting them to undergo PV and drawing attention to the new DIS allowance. The main problem is that we lack an incentive to persuade our existing staff to agree to undergo PV. The process is increasingly seen by staff as an unacceptable and unnecessary intrusion into their personal lives, and nobody likes being cross examined by a stranger. Moreover, anyone posted to a PV post in the DIS knows that it can then be very difficult to release him or her for career development purposes, because of the scarcity of PV staff. Even when promoted to EO, they sometimes have to be retained by the DIS in their new higher capacity doing work which is more often than not mundane and repetitive.

5. I return therefore to the proposal for an allowance to persuade clerical and secretarial staff to undergo the PV process, to provide a pool from which we can draw staff for the DIS. What I have in mind is a PV allowance of £750 after one year, rising to £1250 after three years. For those working in the DIS (who are required to have EPV) there would be an additional £500, giving them £1250, and £1750 after three years (this would replace the existing special DIS allowance). The allowance would be in addition to the £600 LPA where currently in payment. If it would help to make these payments in lump sum, I am agreeable - indeed there may be a positive attraction in this course of action. If we do decide to make it part of salary, we could now or eventually utilise clause 11 of the CPSA pay agreement - if that comes into force in the near future. We would aim to contain these increases to just the clerical and secretarial grades, although if the differential between the AO and EO working in the DIS becomes eroded we may need to consider giving EO's in the DIS a small allowance of, perhaps, £300.

6. I cannot emphasise too strongly how seriously any possible further deterioration in the Defence Intelligence Staff, through lack of clerical and secretarial support, would be viewed. The threat to security in the present situation worries me greatly. Although I have concentrated on the DIS, there are other areas involving high levels of clearance, including the Security, Scientific and Nuclear fields, where the shortage of PV cleared staff is also beginning to bite. This allowance would help to provide a pool of cleared staff to meet all these requirements.

7. A copy of this letter goes to Robin Butler.

Sir Peter Middleton GCB  
HM Treasury  
Parliament Street  
LONDON SW1P 3AG

Yours sincerely,

*J. Wright*

(Private Secretary)

(Approved by Sir Michael Quinlan  
and signed in his absence on duty.)

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GRAHAM  
→  
CX  
22/2

FROM: J GRAHAM

DATE: 22 FEBRUARY 1989

1. MS SEAMMEN
2. CHANCELLOR

cc PS/Paymaster General  
Sir P Middleton  
Mr Anson  
Dame Anne Mueller  
Mr Kelly  
Mr Robson  
Mr Hansford  
Mr Lewis

pmw

**CIVIL SERVICE PAY**

1. You are meeting the Secretary of State for Defence at 4.00 pm on Thursday 23 February following his letter to you of 14 November and subsequent exchanges (copies attached). Sir P Middleton and Sir M Quinlan will also be present.

**General line to take**

2. The meeting should allow Mr Younger to amplify his concerns; your line will be, in general, that they are well appreciated, that we have already moved substantially, and that we will continue to target our pay policy on areas of special recruitment and retention difficulty. But as we do so, the role of running costs as the affordability constraint will become even more important.

3. In his letter of 14 November Mr Younger endorsed the development of greater pay flexibility but

- (i) wondered whether the Civil Service was prepared for the decreasing number of 16-19 year olds coming into the labour market by the mid-1990s;
- (ii) queried the pay strategy for civil servants and other public sector employees such as the armed forces, teachers, police etc; and

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- (iii) drew attention to staff shortages in London and the South East.

This will be the main agenda for the meeting; other topical issues are dealt with later in this brief.

4. Since your reply of 30 December and Mr Younger's further letter of 16 January we have reached provisional agreement with the NUCPS and CPSA on new flexible pay arrangements. Part of this included additional pay increases of 7 per cent from 1 June to those in London in the clerical and secretarial grades which Mr Younger picked out as a particular difficulty. There are also new age pay arrangements specifically targeted at 16-19 years olds which MOD welcomed and which give departments some discretion over the timing of their introduction. We have also, of course, responded to the Review Bodies' reports by accepting virtually all their recommendations.

5. You have also agreed, in the context of the London Weighting review, to abolish the juvenile rate for London Weighting (a change MOD has been pressing for) and increase the ceiling on local pay additions from £600 (£700 for secretaries) to £1000; which should be in place soon. You wrote to Mr Younger on 2 February setting out these changes.

Special allowance for positively vetted clerical and secretarial staff

6. Sir Michael Quinlan's letter to Sir Peter Middleton of 21 February (attached) asks the Treasury to reconsider this claim and warned that Mr Younger will raise it with you. We rejected the earlier claim on the grounds that

- we were doubtful over the principle of paying staff to be PVd;
- staff's objections to the PV process were unlikely to be overcome by extra pay so the money would be wasted;

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- MOD could probably make helpful improvements on the non-pay side (such as reducing the period of service necessary before being eligible for vetting etc);
- there was a real risk of repercussions to other Whitehall departments, particularly FCO;
- we were prepared to agree to enhance the special pay allowances for staff in the Defence Intelligence Service (which is a drain on MOD's overall pool of PV'd staff) and did so.

7. Moreover this was against the background of a substantial increase in London Weighting in 1988, the introduction of local pay additions and the prospect of early negotiations on new longer term pay arrangements for CPSA staff. The latter will be in place by April this year with an extra 7 per cent going to London based staff. The LPA ceiling will be raised and MOD will be able to utilise that additional flexibility.

8. The objections to MOD's proposals remain valid. The significant pay improvements already in place, and those in prospect, will of course take some time to have their effect. Against this has to be weighed MOD's serious anxieties over security. Mr Younger may not have fully appreciated the extent to which we have moved to meet the London problem. You should make no commitment about the PV allowance now; we will pursue it separately with MOD.

#### Atomic Weapons Establishment

9. We agreed after some difficult discussions last year to introduce special pay additions for staff at AWE (Aldermaston and Burghfield), based on the need to safeguard the Trident programme. As part of this AWE accepted a commitment to achieve improved manpower utilisation which would absorb the costs of the pay increases. We expect to receive shortly a claim for a special pay addition for AWE Foulness. You should of course make no commitment about this.

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Industrials

10. Mr Younger also drew attention to shortages of craftsmen in the South East. In practice MOD have not sought to make much use of earlier flexibilities (special pay additions). For the future negotiations are under way with the industrial unions on new longer term pay arrangements. This agreement will be used to restructure the existing pay system and introduce greater pay flexibility. Industrial staff at AWE recently went on strike over their productivity scheme, but it was short lived and discussions have been resumed.

Relocation

11. Your line should be to insist MOD should take relocation seriously. Mr Rifkind subsequently wrote to Mr Younger emphasising the gains from relocation - a separate note of MOD's relocation plans is attached.

MISC 66

12. Your meeting was arranged partly at least as a concession to Mr Younger who was pressing for a meeting of MISC 66 in the run-up to this year's pay round. But the negotiations with NUCPS and CPSA on new flexible pay arrangements were by then far advanced and the general pay strategy for the Civil Service was endorsed at your meeting with the Prime Minister on 21 December (the brief and your note for that meeting and a record of the discussion is attached). However in the event you have agreed to a meeting of MISC 66 after the budget some time in April or perhaps early May. No date has yet been fixed but preparations are in hand.

13. No other Minister intervened in the correspondence, other than the Secretary of State for Employment. Mr Fowler's letter to you of 7 February welcomed the new flexible pay arrangements for executive and clerical grades, and pointed to the need for careful monitoring and evaluation. Both agreements include explicit provision to review the performance pay arrangements and central monitoring arrangements will be put in place to assess the new pay flexibilities. There are of course difficulties in isolating the

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impact of pay improvements, apart from other factors, on recruitment and retention figures.

*J. Graham*

**J GRAHAM**

*P.P.*

**CONFIDENTIAL**





*PMG*

Treasury Chambers, Parliament Street, SW1P 3AG  
01-270 3000

23 February 1989

John Colston Esq  
Private Secretary to the  
Secretary of State for Defence  
Ministry of Defence  
Main Building  
Whitehall  
LONDON  
SW1

CC PMG  
Sir P. Middleton  
Mr. Anson  
Dna. Mueller  
C. Kelly  
Mr. Robson  
Mr. Hansford  
Mr. Seaman  
Mr. J. Graham  
Mr. Lewis.

*Dear John*

**CIVIL SERVICE PAY MATTERS**

The Chancellor held a meeting with your Secretary of State this afternoon to discuss Civil Service pay matters. Sir Peter Middleton and Sir Michael Quinlan were also present.

The Chancellor said that a meeting of MISC 66 would be set up. This would take place in April or (more likely) May. Since your Secretary of State had particular concerns in relation to pay, however, he had thought it sensible to hold a small meeting now so that your Secretary of State could set out his views.

Your Secretary of State welcomed the intention to hold a meeting of MISC 66. He said that, on the whole, the Government had very successfully kept the lid on Civil Service pay settlements over the last 10 years. This had, however, been at the price of undermining seriously the Service's ability to attract and retain staff, particularly at grades 5 to 7. This was especially so amongst those types of staff required to meet the new management initiatives - information technology specialists and accountants. The MOD had been unable to fill 17 grade 7 posts last year. There were shortages of between 20 and 30 per cent in some key specialisms. Your Secretary of State emphasised that there was not an overall shortage of staff. But there were these particular problems. If they were not solved the position in 10 years or so would be very serious. Even now, the Ministry was having to fill



some gaps with consultants, at up to four times the cost of Civil Service equivalent staff.

The Chancellor noted that consultants were sometimes an appropriate solution to a shortage. More generally, we had now secured - or were about to secure - long-term pay agreements with nearly all the Civil Service unions. The unions had agreed to much greater flexibility, as a sine qua non of these agreements. There had also been substantial recent increases in London allowances. Taken together, these meant that much had been done to set the stage for solving the pay problem.

Your Secretary of State doubted whether these measures would help particularly with the grade 5 to 7 problem. Sir Michael Quinlan said that, though the measures would be helpful across the board, they would not be enough to deal with the most acute shortages. The Chancellor noted that relocation was a way of dealing with staff shortages. Sir Michael Quinlan agreed. The Ministry had made considerable use of this. But even if it were taken to the limit, it could not deal with the need to fill certain key posts.

Your Secretary of State said that he had a second problem with the secretarial and clerical grades. Specifically, this lay in the difficulty of recruiting junior staff to security sensitive posts, particularly those amongst the defence intelligence staff. 62 posts out of 154 were vacant. Documents were not being properly handled; to some extent the rules had had to be abrogated. The problem related in particular to the need for positive vetting, which was unattractive to staff. Secondly, the work itself was not very attractive. The solution was a special allowance for PV'd staff. This could easily be ring-fenced.

The Chancellor said that it could be difficult to confine such an allowance to the Ministry of Defence. The FCO, for example, might also press to have it for their PV'd staff. If the jobs were intrinsically unattractive, it was unclear whether an allowance would help to fill them. Sir Michael Quinlan said that the modest existing allowance had helped to retain - though not attract - staff. The problem was not confined to the posts amongst the defence intelligence staff; there were also difficulties in, for example, filling junior private office posts. An allowance - which might be targeted on the defence intelligence staff - would swell the pool of available staff for positively vetted posts generally. The Chancellor said that Sir Peter Middleton would look further at this possibility.

The Chancellor noted that the grade 5 to 7 problem was your Secretary of State's chief concern. It was also his: the Treasury had experienced very serious difficulties at those grades. He did not think that MISC 66 would be an appropriate forum for getting into detailed solutions to particular recruitment and retention problems. These were for bilateral



discussion. MISC 66 might instead consider, for example, how to proceed to the next phase of the policy for Civil Service pay. Your Secretary of State agreed with this approach.

Closing the discussion, the Chancellor counselled against setting down on paper arguments in relation to pay policy which might cause difficulties if they were given to the unions. Your Secretary of State agreed.

*Yours sincerely*  
*J M G Taylor*

J M G TAYLOR  
23 February 1989