

PO-CH/NL/886

PART A

Part .A.

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MANAGEMENT  
IN CONFIDENCE

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Begins : 20/12/88  
Ends : 8/2/89

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SSG Pt. A.

Chancellor's (Lawson) Papers:  
The CPSA and NuCPS Long Term  
Pay Agreements.

DD's : 25 Years

*[Signature]*

20/3/96.

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SSG Pt. A.

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*ppp p1*

FROM: MS D SEAMMEN

DATE: 20 December 1988

*This is by way of being a program report. We have some work to do in the new year.*

- 1. MR KELLY
- 2. PAYMASTER GENERAL

- cc Chancellor
- Sir P Middleton
- Mr Anson
- Dame Anne Mueller
- Mr Luce
- Mr Chivers
- Mr Strachan
- Mr Graham

*Cur 20.12*

*Mr X, I got no advantage in April next year. Under some 5*

*some for the with made in this submission.*

CPSA AND NUCPS LONG TERM PAY AGREEMENTS

1. I last reported to you on 29 September. We have made some progress since then. There remain considerable difficulties with CPSA, but they are fairly desperate for an agreement. If things continue to go well with NUCPS we should get agreement with them. Of the two, we attach greater importance to an agreement with NUCPS.

NUCPS

2. Real progress was slow while the IPCS levels survey settlement was unresolved; but that settlement was good enough to convince NUCPS that an agreement could be worthwhile.

3. We have put a pay spine on the table which would give 4 per cent in April 1989 and 2 per cent in October 1989. This is designed to influence their expectations downwards, and is not necessarily our last word; although we shall need to stick very close to 4 per cent in April, there is some scope for adjusting the overall cost in the year. We still need to decide on an appropriate settlement date (it need not be August, as with the previous agreements); when we have done that, we can consider the timing and amount of any further increase before a levels survey settlement. The union has, of course, protested about the size of our offer; but we do not seem to be very far apart. We shall want to use some of the available cash to do something for London.

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4. The union is keen to bring in the support grades, and we are considering this. They would probably be covered by the flexibility clauses and the pay determination arrangements, but not the performance pay clauses. Nor, given their recent restructuring, would they get any assimilation increases.

5. There is, however, a difficulty of timing. The union has impressed on us that it must follow proper constitutional procedures: to try to cut corners would be counter-productive. In practice, this might mean that the National Executive would recommend an agreement to the annual conference in May. While the negotiators express confidence that the executive could deliver,, there is a real danger that an agreement would unravel, particularly against a rather unfavourable inflation background. An earlier special conference in April might be the better option.

#### CPSA

6. There remain difficulties on the extent of management discretion both in relation to local pay additions and the ability of agencies (in particular) to vary the form of performance pay. CPSA remain adamant that pay is a matter for negotiation, not just for consultation. We must not give ground on securing consultation only.

7. As with NUCPS, we have tabled a pay spine which would give 4 per cent in April 1989 and 2 per cent in October 1989, and have indicated our wish to do something for London. Their reaction was much stronger than that of NUCPS. Their aspiration is to restore the relativities which traditionally existed between their grades and the support grades, and with equivalent grades in the Inland Revenue, and to make up ground they see as lost since 1980. . We do not regard these relativities as very material, but naturally CPSA members do not see it in quite that way. Voting decisions (CPSA intend to ballot all their members) maybe much influenced by how much progress in the short term has been made towards restoring relativities, and how far the union can convince itself that the pay determination arrangements provide a reasonable framework for the future.

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8. We expect to make a major "concession" to CPSA on the form of performance pay. We have, in fact, been convinced by their argument that for their grades any elaborate structure, such as that in the existing agreements, is unnecessary, and that a key objective is to motivate those who put in long service without achieving distinction. Promotion is the major incentive for really good staff at these grades. Departments would like whatever is agreed to be virtually automatic; discretion is difficult to manage at these levels with so many staff. . We are therefore planning to propose to CPSA that two spine points (or half points) only should be available for performance pay; that both should be available to those with box 3 markings or better, though the box 3 people would take longer to get there; and that there should be no quota. This would be, in effect, a lengthening of the scale but with a performance bar; but it would achieve an important objective in getting CPSA to sign up on the principle of performance pay, and allow us to build on it later. We would need to manage carefully the comparisons which would be drawn with IRSF (whose agreement confines performance pay to Box 1 and 2 makes only.

9. We also expect to agree a useful clause which would allow departments to exercise discretion on flexibility on starting pay on appointment. It would meet our desire for flexibility to meet the difficult labour market conditions of the 1990s, and at the same time meet CPSA's longstanding desire to end age pay, at very small cost.

CONCLUSION

10. The New Year will see intensive negotiations continuing with a view to reaching agreement by, say, mid-February. We will liaise closely with the Next Steps Project manager. We shall continue to keep in close touch with departments on the structure of the agreements, and on the costs to ensure that any settlement is affordable. Running cost limits look tight next year in the light of the worse outlook for inflation and what we can do will be severely constrained by departments' provision for pay; main departments have in general provided 6-6½ per cent or a touch more.

*gMB*

DIANA SEAMMEN

P.P

MP

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Malcolm Buckler  
23 December 1988

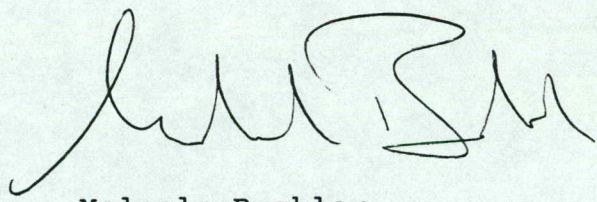
Ms Seammen

cc Chancellor  
Sir P Middleton  
Mr Anson  
Dame Anne Mueller  
Mr Luce  
Mr Kelly  
Mr Chivers  
Mr Strachan  
Mr Graham

Mr Kemp OMCS

**CPSA AND NUCPS LONG TERM PAY AGREEMENTS**

The Paymaster General was most grateful for your submission of 20 December. He commented that it was very useful to have such information at this stage.



Malcolm Buckler  
*private secretary.*

FROM: E P KEMP  
 DATE: 30 December 1988

MR KELLY

cc Chancellor of the Exchequer  
 Paymaster General  
 Sir Peter Middleton  
 Mr Anson  
 Dame Anne Mueller  
 Mr Luce  
 Mr Chivers  
 Ms Seammen  
 Mr Strachan  
 Mr Graham

*Are pps out there?*

Mr Trevelyan  
 Mr Gilmore  
 Mr Morgan  
 Mr Vaughan  
 Mrs Goldsworthy  
 Ms Slocock

**CPSA AND NUCPS LONG-TERM SERVICE-WIDE PAY AGREEMENTS**

Ms Seammen kindly sent me a copy of her note to the Paymaster General of 20 December. Since I am mentioned in the Next Steps context, in her conclusion, I thought it might be helpful if following our various talks, I set out how I see this from the Next Steps Agency point of view.

2. My concern, basically, revolves around the need to allow Agencies and potential Agencies (and if it comes to that Departments and parts of Departments) the maximum freedom to adopt pay and personnel regimes which are best suited to their circumstances. It was of course a basic thrust of the Efficiency Unit's report that the Civil Service was just too horizontally oriented, with a whole lot of systems and rules which may or may not have approximated to the average need but certainly did not match any specific need. In the interests of economy and making best value out of the pay bill, and of management needs at the local level, what we look for is the maximum ability to adapt to those local circumstances.

3. Agencies will thus want the ability to create and operate their own tailor-made systems, or local variations on national systems, so as to suit their own particular circumstances, and we shall want to encourage

and facilitate this. In the early days in many cases the variations looked for may be relatively minor, and may be capable of being accommodated alongside a "base" system which rides on the back of Treasury negotiations and Service-wide agreements, perhaps within the flexibilities already within those agreements. But in due course much more will be looked for.

4. In a perfect (Next Steps) world Service-wide agreements would be undesirable and unnecessary. Against that, although as you know I think the Agency approach will go pretty far and pretty fast, for the near future anyway there will still be a big "non-Agency" Service and Service-wide agreements, albeit with local variations, will have a role to play. It does not look as though so far the IPCS agreement has proved a hindrance (though it is very early days); and as I know discussions with the CPSA and NUCPS have been going forward in good faith for some time. So I would not want to stand in the way of long-term pay agreements with them if other arguments point in that direction and sensible agreements can be reached. But these should be negotiated on the basis that Agencies and local flexibilities are the direction we are going in, and are the likely ultimate end: so that the moves are seen as, and are, going with the grain of Next Steps, and do not contradict or oppose it. Thus there are four very important conditions to be met, thus :-

a. Agreements must not obstruct, but must encourage, facilitate and legitimise, local variation on top of national arrangements; and such local variations must be on a basis which does not inevitably add to net costs. Possible variations must not be limited to performance, but must also cover and encourage variations by way of skill and geography also or for any other reason. And such local variation must as far as possible be capable of being brought about after consultation, and not agreement, with the unions.

b. There must be an ability for whole units, whether they are Agencies or parts of Agencies to introduce completely independent arrangements in the same way as HMSO, with Treasury blessing, is



doing. There must be nothing specific in the agreements which specifically impedes or opposes this, whether the unit is relatively small like HMSO or, at the extreme, as large as the Social Security system, though I recognise the problems which existing rights may pose.

c. The unions and staff and Departments must all understand (a) and (b) and indeed the whole basis of the approach, beforehand - so no-one can cry foul afterwards. Indeed if there are Departments or actual or potential Agencies with ideas under (b) (they should all have ideas under (a)) they should say so now.

d. Finally there is the presentation. If there is one perception which Next Steps is encouraging, but which both pre-dates and goes wider than Next Steps, it is the notion that national agreements and Service-wide terms and contracts of employment, and all that, are simply out of date; and that local autonomy, within residual minimum central controls if any, is the name of the game. One difficulty with signing up agreements with the NUCPS and/or the CPSA is that it will seem to point totally in the opposite direction to this thrust. The agreements must be so couched, and the understandings with the unions so reached, and the presentation so made, as to make it absolutely clear that this is not a return to corporatism and centralism, but that it is a civilised way of actually facilitating the movement towards local conditions and local autonomy.

5. In short, to take these four points together, we look to the new agreements, if reached, to match, in spirit and detail, the moves to decentralisation and specifically (and I hope this can get a mention in the agreements) Next Steps, and to be, and be seen as, supporting and accepting these developments we are entering into then because of Next Steps etc not in spite of Next Steps, and the documentation etc as well as the substance must make this clear.

6. On this basis, if as I say long-term agreements with the NUCPS and the CPSA are otherwise desirable, I think Next Steps could live with them for the next few years anyway. It would, of course, be subject to "contract and survey", and we would very much like to see precisely the terms in which the agreements are to be couched. But I am sure that the Pay side of the Treasury will continue to keep us closely in touch.

7. Perhaps I could add reference to a slightly different point here, which is the question of local delegation. Local flexibilities and local delegations are often spoken of as in one voice, but in point of fact they are quite different. It is possible to have local flexibilities but by retaining the iron hand of the centre, whether the Treasury or the centre of Departments, to impede the ability of local managers to make their own decisions and thus to make maximum use of these flexibilities.

8. I hope very much that as well as getting flexibility into the agreements the Treasury and centres of Departments will ensure that there is sufficient operational flexibility for managers to take their own decisions (within overall running costs, of course) in the light of local circumstances, without being double guessed or at least having to refer back to the Treasury or the centre. You may know that at a recent meeting which Sir Robin Butler and I had with the Prime Minister over Next Steps the point was made that the implementation of devolved budgeting and the encouragement of responsible local decision-making was essential for improved efficiency and better staff motivation; and the Prime Minister said that she would ask Ministers to ensure that new policies should be implemented with the minimum of central bureaucratic control and maximum of devolved responsibilities to local operating units. I am sure that this is a message which goes wider than just pay, and goes deeply into very much of the way in which we run the Civil Service today. Notwithstanding all our efforts over the last few years there is still an enormous amount of unnecessary centralism and central control.

9. These are of course my own views and relate for the most part to how your proposals sit with the Next Steps initiative and the thinking behind it. But there are other issues too, as well as these, which arise and which point in various different directions. I do not know what sort of arrangements are proposed for consulting other Ministers before the Treasury goes firm, but I must reserve the position of the Minister of State, to whom I shall be reporting on this.

*E P Kemp*

E P KEMP

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*MB*



FROM: MALCOLM BUCKLER

DATE: 4 January 1989

DAME ANNE MUELLER

- cc PS/Chancellor
- Sir Peter Middleton
- Mr Anson
- Mr C W Kelly
- Mr Luce
- Mr Chivers
- Ms Seammen
- Mr Strachan
- Mr Graham
- Mr Kemp - OMCS

*BF next  
PEM  
later!*

*Alex*  
*I have a secret message for you on this fascinating topic. Pl remind me to pass it on!*

**CPSA AND NUCPS LONG-TERM SERVICE-WIDE PAY AGREEMENTS**

The Paymaster General has seen Mr Kemp's minute to Mr Kelly of 30 December on this subject. Ahead of the seminar on the future of the Civil Service (24 January) he would welcome a brief meeting on the Civil Service unions' reaction to Next Steps and agencies so far. I shall be in touch about possible dates.

*MALCOLM BUCKLER*

MALCOLM BUCKLER  
Private Secretary

CPSA & NUCPS  
LONG-TERM PAY  
AGREEMENTS.

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BF next  
PEM bilateral

FROM: C W KELLY  
DATE: 9 JANUARY 1989

MR KEMP

cc Chancellor  
Paymaster General  
Sir Peter Middleton  
Mr Anson  
Dame Anne Mueller  
Mr Phillips  
Mr Luce  
Mr Chivers  
Mr Strachan  
Mr Graham

PW

pps PL (prob on BF next PEM)

Mr Trevelyan  
Mr Gilmore  
Mr Morgan  
Mr Vaughan  
Mrs Goldsworthy  
Miss Slocock

**CPSA AND NUCPS LONG-TERM PAY AGREEMENTS**

Thank you for your minute of 30 December, about which we have spoken. I am glad that it looks as though the general approach we are taking towards the negotiations with the NUCPS and CPSA can be reconciled with your interests.

2. We have, of course, kept in close touch as the thinking on long-term pay agreements and on Next Steps has developed and will continue to do so. Allowing for our different perspectives, there is a good deal of common ground between us.

3. My own prime concern is very much the same as yours, though I would express it a little differently. It is to continue to develop the Civil Service pay system or systems in ways intended to make the pay bill more cost-effective without endangering control of public expenditure. What this implies is more flexible and more varied arrangements making it possible better to reflect local circumstances, including local labour market circumstances.

4. I think we can fairly claim that we have made a considerable amount of progress in this direction in the last twelve months, building on foundations laid in your time here, with the introduction of LPAs, the first settlement under the long-term pay

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agreement with the IPCS, the new pay regime being introduced for HMSO and so on.

5. But there are, of course, important concerns to watch as we move towards more flexible and more varied pay arrangements, as we are both agreed.

6. First, and most basically, public expenditure control must not be jeopardised. The discipline over costs that central control provides cannot be relaxed unless and until we are satisfied that alternative arrangements are in place which are likely to prove equally or more effective. We must not, for example, allow a situation to develop in which an agency raises the pay of its staff for what it considers to be good reasons and then presents its parent department and the Treasury with an intolerable dilemma - either to increase its budget or to allow it to offer an inadequate level of service. Such a situation simply must not be allowed to happen.

7. Second, we continue to need to have regard to the risk of adverse repercussions from what happens in one agency or department for others. We have long preached, and will continue to preach, the need to be more robust about this; and I think that there are some limited signs of progress, for example with LPAs despite all the threatening noises made by the unions. But I fear there is still a long way to go.

8. Related to this is the risk of departments and agencies getting into situations where they are bidding up pay rates against each other, particularly for scarce skills in areas where there is a high turnover of staff. We could not regard this as a proper use of taxpayers' money.

9. Finally we need to watch the signals which Civil Service pay is giving to the rest of the public sector, and to the private sector. If our more de-centralised approach is a disciplined one under which local managers make - and can be seen to make - more effective use of a given pay bill or a given financial limit than could be achieved centrally, that will be a good message to the

rest of the economy. But if there is weak local management, or over-powerful unions, the consequences could be far from helpful. Decentralised arrangements will have to be buttressed by strong and competent management and by adequate budgeting and information systems.

10. Against this background we take the view that we should continue to press ahead with trying to secure long-term pay agreements with the NUCPS, the CPSA and the industrials as the best way of securing in the immediate future the kind of flexibilities we are agreed that we need within the right sort of framework for control. But I do not think that anyone here believes that we are setting up arrangements that are likely to endure for ever, come what may.

11. Turning to your four conditions:

(a) It will, I hope, be clear from what I have said that I believe it to be a sine qua non that any new long term pay agreements should facilitate rather than obstruct local variations. If we do not secure this, we will have been wasting our time. I also very much share your view that, as far as possible, we should lay the emphasis in introducing such local variations on consultation rather than agreement. We have done that with SPAs and LPAs, both of which will continue to exist under the new regime; and it is our intention to secure it in principle in the new agreements for alternative regimes for performance pay.

But there are, of course, limitations. I cannot, for example, see how we can expect to make selective movements of a general kind up and down the spine subject to anything other than negotiation, as they are in the three existing agreements. I do not, however, see that as a major disadvantage. In practice it is always possible to impose upward movements in pay. Downward movements will almost certainly require agreement anyway, at least for existing staff, because of their acquired rights.

(b) I agree also that we must continue to make it possible in suitable cases for agencies or other units to go their own way on pay matters if we are persuaded that the appropriate conditions exist to make this sensible. We have already shown in the cases of the Inland Revenue, GCHQ and now HMSO, our ability to be flexible about this if the circumstances are right. There may be future disagreements about how often the circumstances for such arrangements are likely to be right. But we can deal with that if and when they arise. At the moment the important point is that we should not make the possibility of doing another HMSO more difficult by changes in the institutional arrangements. As far as I can see there is nothing specific in the long-term agreements which we are currently discussing which would have this effect, except in the general sense that any agreement inevitably constrains our freedom of manoeuvre to some extent. In practice, as I know you recognise, the main problem is likely to be not so much the existence or otherwise of long-term pay agreements but the rights which staff have to their existing terms and conditions even without agreements.

(c) There is no doubt in anybody's mind about the objectives the Treasury has in signing long-term pay agreements, that is to introduce more flexibility into the system. This is not so much, as you put it, because of Next Steps - since the process was started long before Next Steps - but because it is a desirable objective in its own right to which Next Steps has given added momentum. We intend to refer specifically to agencies in the memoranda to the agreements.

It is only fair to add that one of the few attractions which the unions see in long-term pay agreements is that they stand a better chance of exerting more influence over the move towards more flexibility. But, as long as we remain in the driving seat, we can live with that.

(d) I very much agree that presentation of all this will be crucially important. Unless carefully handled national agreements might be thought to be inconsistent not just with



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Next Steps but also with our general stance towards pay determination in the wider economy. The view that we have taken is that at this stage in our development we are more likely to make faster progress towards the type of flexibility we believe to be desirable inside the framework of long-term pay agreements than outside them. We shall have to make this clear.

12. In sum, with the caveats noted, I do not have difficulty with any of your four conditions, and indeed very much share the sentiments behind them.

13. We have now reached a crucial stage both with the NUCPS and the CPSA and will shortly begin detailed discussions with the industrial unions. I expect things to come to a crunch on the first two fairly quickly, probably before the end of the month. I will continue to keep you in touch with developments. I am making arrangements to show you the current drafts of the relevant bits of text separately. We will want to keep you in touch with the question of presentation if and when we reach agreement and come to the announcement stage.

*CWK*

C W KELLY

FROM: C W KELLY  
DATE: 20 JANUARY 1989

**CHANCELLOR OF THE EXCHEQUER**

cc Chief Secretary  
Paymaster General  
Sir Peter Middleton  
Mr Anson  
Dame Anne Mueller  
Mr Luce  
Miss Seammes

Ch/ 1. Are you happy with the outline settlements reached?  
2. How do you wish to consult PM & colleagues? (We have lost the PM bilateral next week) @15

**LONG-TERM PAY AGREEMENTS: NUCPS AND CPSA**

It looks as if we are very close to being able to conclude a long-term pay agreement with the NUCPS.

2. The bulk of the text is already agreed, though a number of difficulties remain. The pattern follows fairly closely that already set by other agreements, but with differences of detail to reflect the passage of time or different circumstances. It would give us what we want in terms of flexibilities, scope for regional variation, performance pay and the Megaw machinery. It would also include acceptance by the NUCPS of the use of Local Pay Additions, which would be quite a big climb down for them, without conceding the need to do anything more than consult about them (which we do already).

3. The most troublesome points still to be ironed out are the treatment of the support grades (probably in but with less favourable financial terms than everyone else), performance pay (where we are likely to end up with something looking very much like the Grades 5 to 7 agreement) and, most difficult of all, references to Next Steps Agencies. We need to find a form of words which records specifically that the agreement is intended to facilitate and not impede the development of Next Steps. That is not proving very easy, given the union's susceptibilities on this point.

4. Ultimately, whether the union signs up or not will depend not so much on the deal as on the cash. For their part they have indicated that they would settle for a package which involved:

(i) 4 percent across the board on assimilation to a spine on 1 April 1989;

(ii) a further 4 percent across the board on 1 October, and

(iii) (reluctantly, but if we insist) a spine point (worth on the scale maximum about £408 for EOs and about £740 for SEOs) for London at some date yet to be fixed but likely to be around 1 June;

(iv) a 1 April 1990 settlement informed by a levels survey.

5. On the assumption that the support grades got the first 4 percent but not the second, the first year cost of such a deal would be around 7 percent with a carry over into the second year of around 2 percent. We are still firming up the costings.

6. We have not, of course, agreed to this. I have told Leslie Christie firmly that the overall cost is too high and that we would have to cut down the 1 October payment significantly.

7. But in practice, provided we got a satisfactory settlement on the outstanding text, a deal at this level would not be a bad bargain. Nor would it be very far out of line with our expectations when we began the process last summer.

8. The downside would be:

(i) it is not a particularly good time presentationally to go public on a settlement with a full year cost of 9 percent (even though staged and associated with something analogous to a restructuring deal), and

(ii) the first year cost would be a bit above the 6-6½ percent generally allowed by departments in their running costs. The significant overhang into 1990-91 will also have an unhealthy effect on departments' running cost bids in the 1989 Survey.

9. On the other hand:

(i) Presentationally we would focus attention as much as possible on the first year cost (7 percent), or even better the first year cost excluding London (6 percent).

(ii) This is more than a presentational point. The money for London is to help meet a very real management need (of which the Prime Minister is very conscious). If we do not put money into London in this way, we will almost certainly have to do so through London Weighting. If, on the other hand, we do conclude an agreement along these lines we would expect the implication to be little or no increase in London Weighting this year. Expressing the increases as a percentage of the basic and London pay bill combined for these grades would bring the first year costs down to below 6½ percent.

(iii) The cost is not out of line with what we paid for previous agreements, though comparisons are difficult because of different patterns and different time periods, and because of the London complication. Since the previous agreements, however, the external circumstances have become much harder. Both inflation and the level of settlements elsewhere are now higher.

(iv) We would be getting quite a lot in return in terms of flexibilities, and would be expecting the Union to reverse a fair number of Conference decisions. This, incidentally, would be an important point for us to make presentationally in explaining why we are still signing national agreements while urging others to break down monolithic structures. What we would be doing would be producing an agreement which did break down monolithic structures.

(v) Finally, the excess cost above general running cost provision, particularly taking account of the London Weighting point, would be fairly modest, and probably less than departments are fearing. I will be discussing this point further with them early next week. Absorbing will, as always, cause more difficulties for some than for others. But it would surprise me if I did not get their grudging acquiescence.

10. Keeping 1 April as a settlement date, rather than moving to 1 August as with the other agreements, is not unwelcome to us in terms of ease of management. It would mean that the NUCPS get their first settlement under the terms of the agreement four months earlier than other unions. But they would not then be getting the further staging payment on 1 April 1990 which all other agreements have included.

11. We have seen it as our objective for some time to secure a long-term pay with the NUCPS. The development of Agencies has complicated the discussions, but not to the extent of wanting us to change this underlying strategy, even if it were possible to reverse engines now without doing rather a lot of damage to industrial relations. If we do want an agreement, it would seem fairly unreasonable to expect to be able to sell it to staff for less than the rate of inflation in the first year at the time at which they are voting. I will naturally try to shave down the figures, but I doubt that there is much give in the union's position if we are to leave them with something they can reasonably expect to sell.

#### CPSA

12. We have been having parallel discussions with the CPSA. John Ellis is desperate to finalise these within the next week or so. The moderates on the CPSA campaigned last year on their ability to deliver a satisfactory long-term pay agreement with us and now need to deliver, and to ballot the membership before this year's elections. But we are having more difficulty than with the NUCPS on aspects of the text, and they are being more unrealistic than

the NUCPS about the cash. In practice we will clearly have to  
hmm... make them settle for something broadly the same as the NUCPS in  
terms of money, though the details may differ, or not at all. But  
we still have a lot of work to do.

Procedure

13. I am seeing the CPSA on Monday, departments on Tuesday to  
keep them on board and to check the running costs point, and the  
NUCPS on Wednesday.

14. Ideally, I would like to be in a position to come close to  
making a final offer to NUCPS at the Wednesday meeting. But we  
could take one or two days more without losing momentum or  
endangering their timetable if necessary.

15. I do not yet have a firm proposition to put to you about the  
CPSA, or even yet know whether it will be possible to find an  
accommodation which I can recommend to you. But I ought to be  
clearer about that too by the middle of next week or soon  
thereafter.

16. If and when the negotiators of either union reach agreement  
with us, they will need to go to their NECs. Both unions have  
already fixed provisional meetings for this purpose.

17. There is the usual question of consulting colleagues. I  
imagine you will want to get the Prime Minister on board first,  
perhaps before I get to the point of no return.

18. I am not sure what you will want to do about consulting other  
colleagues. Mr Younger has written to you twice suggesting a  
meeting of MISC(66). I doubt that will commend itself to you.  
But if it did, and if it were to have any purpose, it would need  
to meet very quickly, before I went too far with the NUCPS. The  
alternative would be to tell them after the event, which is bound  
to cause grumbles.

NO  
Avoid

19. I have discussed the substance of this minute in advance with Sir Peter Middleton and Dame Anne Mueller. I have also shown it to Mr Luce.

*CWK*

C W KELLY

CONFIDENTIAL AND MANAGEMENT IN CONFIDENCE

*pwp*

FROM: C W KELLY

DATE: 24 January 1989

CHANCELLOR

*Ch/ Are you content with minute to PM?*

cc Paymaster General  
Sir P Middleton  
Mr Anson  
Dame Anne Mueller  
Mr Luce  
Ms Seammen

*OK as with middle  
see J. J. 015*

**LONG TERM PAY AGREEMENTS: NUCPS**

1. I attach a draft minute to the Prime Minister reporting the position we have reached with the NUCPS.

2. I have suggested referring in passing in paragraph 3 to the possibility of an increase in the ceiling for discretionary local pay additions from £600 to £1,000. This is one of the recommendations of the report of a working group which is just being finalised and which I will be putting to you shortly. There seems no harm in a trailer about it now, as part of our response to the London and South East problem on which Mr Younger focused his letter to you of 16 January.

3. I have not referred to that letter in the draft attached. But it would be possible to add a reference at the end of paragraph 3 if you thought that appropriate.

*Ch/ I think it better not to draw attention to it. (attached at flag for reference)*

C W KELLY

*why don't we just write to Younger after this goes out saying the settlement should help meet the problems he identified?*

*with consideration*

*015*



DRAFT MINUTE TO PRIME MINISTER  
FROM CHANCELLOR

CIVIL SERVICE PAY: EXECUTIVE GRADES

*This minute is to*  
[I am pleased to tell you that] we are on the point of reaching a provisional agreement with the National Union of Civil and Public Servants (NUCPS) about a new pay determination system covering the 122,000 staff in the executive and support grades. This will be the fourth such flexible pay agreement. It follows those already reached with the Institution of Professional Civil Servants, the Inland Revenue Staff Federation, and the unions representing Grades 5 to 7.

2. The form of the agreement follows that of its predecessors. It includes a substantial element of performance pay and provides for flexibilities, including geographical flexibilities, which will enable us to target pay selectively to where the problems are and should <sup>thus</sup> facilitate the development of more appropriate pay arrangements within agencies and elsewhere. It also includes the longer-term pay determination system based on the Megaw approach which we endorsed in principle in 1982. Signing up to it will require the NUCPS to reverse a fair number of conference decisions.

3. As part of the agreement we will begin operating the flexibilities with a substantial differential increase of up to £740 for executive staff in London, depending on grade. Our strategy is to channel additional funds to help meet the London problem through the flexible pay agreements, using the local pay

additions introduced last year to top up more selectively. I am considering the possibility of increasing the maximum payment which can be made on an LPA.

4. Apart from the special payment for London, the agreement provides for an increase of 4 percent from 1 April and a further increase for the executive grades from 1 October this year which is not quite finalised but is likely also to be 4 percent or a little below. The cost in 1989-90 excluding London would be just below 6 percent. This is the number we would focus on presentationally. There would also be a ~~carry-over into~~ the second year of just under 2 percent.

*further increase*  
*Carry over into*

5. This is broadly in line with the pay increase associated with previous flexible pay agreements. In return we get a better structured and more flexible pay system, better arrangements for rewarding good performers and commitment by the union to the principles of selectivity and geographical pay.

6. The final details are still being settled and the agreement has yet to be put to the union's executive committee. I will not endorse it until it has, and it must remain confidential in the meantime. The union will then put it to their members for ratification.

7. My officials have also been talking to the Civil and Public Services Association <sup>(CPSA)</sup> about a similar agreement covering the clerical, secretarial and related staff. These talks too are very close to reaching a conclusion and I expect to be minuting you

about them shortly. If we were to reach agreement with the CPISA as well as the NUCPS we would have concluded long term flexible pay agreements covering virtually all the non-industrial civil service.

8. I am sending copies of this minute to members of MISC66 and to Sir Robin Butler.



24/1/89.

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

**PRIME MINISTER**

**CIVIL SERVICE PAY: EXECUTIVE GRADES**

We are on the point of reaching a provisional agreement with the National Union of Civil and Public Servants (NUCPS) about a new pay determination system covering the 122,000 staff in the executive and support grades. This will be the fourth such flexible pay agreement. It follows those already reached with the Institution of Professional Civil Servants, the Inland Revenue Staff Federation, and the unions representing Grades 5 to 7.

The form of the agreement follows that of its predecessors. It includes a substantial element of performance pay and provides for flexibilities, including geographical flexibilities, which will enable us to target pay selectively to where the problems are; it should thus facilitate the development of more appropriate pay arrangements within agencies and elsewhere. It also includes the longer-term pay determination system based on the Megaw approach which we endorsed in principle in 1982. Signing up to it will require the NUCPS to reverse a fair number of conference decisions.

As part of the agreement we will begin operating the flexibilities with a substantial differential increase of up to £740 for executive staff in London, depending on grade. Our strategy is to channel additional funds to help meet the London problem through the flexible pay agreements, using the local pay additions introduced last year to top up more selectively. I am considering the possibility of increasing the maximum payment which can be made on an LPA.



Apart from the special payment for London, the agreement provides for an increase of 4% from 1 April and a further increase for the executive grades from 1 October this year which is not quite finalised but is likely also to be 4% or a little below. The cost in 1989-90 excluding London would be just below 6%. This is the number we would focus on presentationally. There would also be a further increase carried over into the second year of just under 2%.

This is broadly in line with the pay increase associated with previous flexible pay agreements. In return we get a better structured and more flexible pay system, better arrangements for rewarding good performers and commitment by the union to the principles of selectivity and geographical pay.

The final details are still being settled and the agreement has yet to be put to the union's executive committee. I will not endorse it until it has, and it must remain confidential in the meantime. The union will then put it to their members for ratification.

My officials have also been talking to the Civil and Public Services Association (CPSA) about a similar agreement covering the clerical, secretarial and related staff. These talks too are very close to reaching a conclusion and I expect to be minuting you about them shortly. If we were to reach agreement with the CPSA as well as the NUCPS we would have concluded long term flexible pay agreements covering virtually all the non-industrial civil service.

I am sending copies of this minute to members of MISC66 and to Sir Robin Butler.

*Duncan Sparkes*

PP. N.L.

24 January 1989

[Approved by the Chancellor and signed in his absence]



py

Ch

Peter has been discussing  
this with Robin, who is still  
pressing hard for a MISC 66  
meeting. Peter said he  
would have a word with  
you before reporting back  
to FERBS.

~~AA~~  
Wesper

AA



10 DOWNING STREET  
LONDON SW1A 2AA

From the Principal Private Secretary

25 January 1989

*Dear Alex,*

**CIVIL SERVICE PAY: EXECUTIVE GRADES**

The Prime Minister has seen the Chancellor's minute of 24 January. She welcomes the establishment of a further flexible pay agreement, particularly for a pay group as large as the NUCPS. She has also noted the likely outcome of the first year's pay settlement under the agreement.

I am sending copies of this letter to Private Secretaries to members of MISC 66 and to Sir Robin Butler.

CH/EXCHEQUER	
REC.	25 JAN 1989
ACTION	MR Kelly ✓ 25/11
COPIES TO	PMG
	SIR P MIDDLETON
	MR ANSON
	DAME A MUELLER
	MR LUCE
	MS SEAMON

*Yours sincerely*  
*Andrew*

(ANDREW TURNBULL)

Alex Allan, Esq.,  
HM Treasury.

PWP

FROM: C W KELLY  
DATE: 27 JANUARY 1989**CHANCELLOR**cc Chief Secretary  
Paymaster General  
Sir Peter Middleton  
Mr Anson  
Dame Anne Mueller  
Mr Luce  
Miss Seammen  
Mr GrahamCh/ 1. Contact with the way negotiations  
are proceeding? *Yes*  
2. Want to minute PM again? *Yes*  
*DIS***LONG-TERM PAY AGREEMENTS: NUCPS AND CPSA**

Since my submission of 20 January we have had further discussions with both the NUCPS and CPSA. I have also met again with the establishment officers of the main departments to keep them in the picture and to ensure that we still had their support (which we do).

2. With the NUCPS we are nearly there. They now know that we would give them 4 + 4 percent for the executive grades if we can get agreement about the text, including the troublesome Next Steps clause. I am reasonably confident that we will achieve that.

3. But we have still not resolved the position of the 12,000 support grades, where both sides are engaged on a bit of brinkmanship.

4. The support grades benefited from a fairly hefty settlement last year, related to a restructuring exercise. In management terms there is very little case for giving them anything other than a modest increase this year. The 4 + 4 percent proposed for executive grades would be way over the top. Our negotiating position has been that they should get the first 4 percent and no more. We have told the union that this is all we would be likely to offer if we were negotiating for these grades outside the agreement, which is the alternative.

5. But there are, of course, politics. This will be the first settlement since the old CSU, which represents the support grades,



merged with the Society to form the NUCPS. It is the ex-CSU General Secretary (John Sheldon) who has been bearing the brunt of the negotiations on their side; and the support grades between them muster 14 votes on the Executive. Against this background John Sheldon has been arguing very strongly that unless his old members receive exactly the same as the executive grades there can be no agreement.

6. This is probably partly bluff. But we have always recognised that it will be necessary to take some account of these factors in reaching agreement. My guess is that we shall be able to settle for a further 1½ or at the most 2 percent on 1 January, though I cannot be entirely certain of that at this stage. We allowed for this possibility in the costings in my earlier minute, and in your minute to the Prime Minister.

CPSA

7. If the NUCPS do settle with us along these lines, the pressure on the CPSA to settle as well will become greater than it already is.

8. We have made some progress with them too during the week. We have agreement on most of the text, including provisions for performance pay of a more modest kind than for executive grades. We have also been having the same arguments as with the NUCPS about the agencies clause and about the related parts of the text. But I am reasonably confident that we will be able to sort all this out if and when we have done so with the NUCPS.

9. Dealing with the money should also be easier. There is clearly no question of settling with the CPSA at a figure above that given to the NUCPS. Ideally we would settle a bit below, though that may not be feasible. Once the NUCPS tell the CPSA where they have got to (as they are likely to shortly) the CPSA will know what our final financial envelope is likely to be. That will make the discussion more constructive.

10. The CPSA are not, however, looking for such a straightforward settlement as the NUCPS. They are asking for a package which would lengthen the scales at AA and AO levels. We also see advantage in this, because it would concentrate available resources on those who stay longer in the service and thus help with the retention problem. But it does, of course, cost money.

11. What we appear to be moving towards is therefore a package along the following lines:

(i) 4 percent all round on 1 April 1989 (though we are still considering the possibility of expressing this as 4 percent with £5 a week underpinning);

(ii) the addition of half a point on top of AO, AA and related scales on 1 October 1989, with some form of commitment to a further half point at some time in 1990, as part of that year's settlement;

(iii) also on 1 October, assimilation to a spine, which would amount to further increases of some 2-2½ percent for people below the maximum of the scale;

(iv) a spine point for London on 1 June 1989, roughly worth between £250 and £550 but partly consolidated in existing local pay additions.

12. The cost of such a package would be the same as that for the NUCPS, ie 6 percent excluding London in 1989-90, with a 2 percent carry-over into the second year.

13. We still have to sort out what happens in year 2. But it seems most likely at present that we will keep the 1 April settlement date, and give the CPSA, like the NUCPS, a levels survey settlement on 1 April 1990.

14. If you are content, I would hope to reach broad agreement on along these lines on Monday or perhaps Tuesday next week. We would then have some further work to do on some of the details.

15. A draft minute to the Prime Minister reporting where we have got to is attached. You may wish to delay sending this until we are clearer where we stand on the proposed of a MISC(66) meeting.

*CWK*

C W KELLY

FROM: CHANCELLOR  
DATE: JANUARY 1989

PRIME MINISTER

CIVIL SERVICE PAY: EXECUTIVE AND CLERICAL GRADES

Since my minute of 24 January, my officials have had further discussions with both the National Union of Civil and Public Servants (NUCPS) and the Civil and Public Services Association (CPSA), and with the Principal Establishment Officers of the major departments.

2. We are now very close to an agreement with the NUCPS along the lines set out in my minute, though a difficult point remains to be settled about the extent to which the 12,000 staff in the support grades should benefit from the second stage payment proposed for the executive grades.

3. The related talks with the CPSA about a similar agreement covering clerical, secretarial and related staff are also close to a conclusion. The form of this agreement is similar to that with the NUCPS, including the same geographical and other flexibilities, performance pay and the longer-term pay determination system.

4. The pattern of payments will also be similar, with 4 percent or the equivalent on 1 April, a differential payment for staff in London and further payments on 1 October averaging close to 4 percent. The range of increase on 1 October will, however, be rather wider than for the NUCPS because as part of the CPSA settlement we will be making a modest lengthening of the pay scales.

5. Excluding London, the cost in 1989-90 excluding London would be 6 percent, with a carry-over to the second year of just under 2 percent - the same as for the NUCPS.

6. I am sending copies of this minute to colleagues on MISC(66) and to Sir Robin Butler.

and once we have concluded the agreement with the NUCPS, <sup>negotiations</sup> we plan to press ahead to finalise the CPSA agreement.

C.E.

*Thank you  
with love*

FROM: C W KELLY  
DATE: 30 January 1989

**CHANCELLOR**

cc. Chief Secretary  
Paymaster General  
Sir Peter Middleton  
Mr Anson  
Dame Anne Mueller  
Mr Luce  
Ms Seammen  
Mr Graham  
Mr Flitton (IDT)

*Ch/ your minute to the  
Pm reflected this  
latest state of play.*

*(you have past papers  
in the signature folder) @15*

**LONG-TERM PAY AGREEMENT: NUCPS**

I am happy to say that I finally reached agreement with Leslie Christie this morning on the NUCPS long-term pay agreement.

2. We agreed that the support grades should get 4% on 1 April this year and a further 2% on 1 January 1990. This is within the limits of what I had anticipated in my minute of 27 January, and means that the cost of the deal excluding London will be 6.0% in 1989-90 and 2.0% in 1990-91.

3. We still have some final tidying up of the detailed text, which is likely to take us three or four days.

4. It will then go to the union's National Executive Committee, who are meeting for this purpose on 10 February. It will remain confidential until they have endorsed it. There can never be any guarantee that nothing will go wrong at that stage. But Leslie Christie would not have reached agreement with me unless he was fairly confident of the outcome, and he has taken quite a lot of soundings of individual executive members over the last few days.

5. The Executive has still not decided whether they will then go directly to a ballot of their members or go to conference first. But the odds now seem to be on an immediate ballot, which I am sure is to be preferred from our point of view because it will be so much quicker.

6. In the event of any leak between now and 10 February we shall simply say that negotiations are continuing and refuse to comment.

*CJK*

C KELLY

MANAGEMENT - IN CONFIDENCE

*pwp*

FROM: C W KELLY

DATE: 31 January 1989

1. DAME ANNE MUELLER ✓

*I agree with 1/2*

2. CHANCELLOR

- cc. Chief Secretary
- Paymaster General
- Sir P Middleton
- Mr Anson
- Mr Byatt
- Mr Monck
- Mr Phillips
- Mr Harris
- Mrs Lomax
- Mr Luce
- Mr Chivers
- Mr Hansford
- Mrs Haworth
- Mr G Jordan
- Mr Richardson
- Ms Seammes
- Mr Strachan
- Mr Barker
- Mr Graham
- Mr Bell
- Mrs Luckin

*Ch/ Are you content to accept the recommendations on London weighting and write to Mr Younger as suggested?*

*OK ✓*

*015*

**LONDON WEIGHTING, LONG TERM PAY AGREEMENTS AND LPAS**

Mrs Harrop's minute below covers the report of the interdepartmental working group on London weighting which I foreshadowed in my minute of 24 January. The report represents a good deal of hard work by Mr Chivers and Mrs Harrop, and by their staff.

2. The group was originally set up as part of the underpinning for the negotiations we have been having with the NUCPS and CPSA on long-term pay agreements, and in preparation for the discussion we are about to have with the CCSU about the future of London weighting, to which we committed ourselves as part of last year's London weighting settlement.

3. The report, which was unanimous makes two main recommendations.

4. The first is that in the face of a deteriorating recruitment and retention situation there is an urgent need to increase the pay differential in favour of London, and that a combination of

*2/12/20*

long-term pay agreements and Local Pay Additions (LPAs) are the most cost effective way to do it, with London weighting being left to wither gently on the vine.

5. We have, of course, already begun to act on this with the additional spine points for London agreed with the NUCPS as part of their provisional long-term pay agreement and likely to be agreed soon with the CPSA. Both unions have accepted this in full knowledge of the likely implications for London Weighting. That will not stop them arguing vigorously for a substantial increase in London Weighting when the time comes. But they cannot now expect anything other than a token amount.

6. The second, related recommendation is that the maximum LPA payable should be increased from £600 (£700 for secretaries) to £1,000.

7. I endorse this recommendation. It will, of course, have a cost. But it is clearly understood by all concerned that LPAs are discretionary and can only be paid if they can be absorbed within existing running costs ceilings. I explicitly asked departments to take account of this development as well before confirming - as they broadly did - that the NUCPS and CPSA pay agreements were affordable. Selective, discretionary LPAs are cheaper, and more cost-effective, than the alternative of putting more money into London pay through the long-term agreements.

8. Some departments would have liked us to raise the limit further. I do not rule that out for the future. But I am sure that it would be wrong at this stage. We only introduced the scheme last June; the increased ceiling taken in conjunction with the new London payments under the long-term pay agreements adds up to a fairly substantial amount; and we need to keep some kind of an eye on the relative position of those departments who have as acute recruitment and retention problems as others but for one reason or another find themselves under greater running cost pressures.

9. What the report did not recommend was any substantial scheme to help with house purchase, of the kind apparently canvassed by Sir Robin Butler at your meeting with the Prime Minister on




21 December. I am sure that this is right. A scheme of equity sharing, with the Government taking part of the equity would be expensive, complicated to administer, almost certainly controversial and not, I suspect, very cost-effective. It would also require primary legislation. The Group did, however, recommend that more use should be made (within what Departments can afford) of the existing facility for making an advance of six months' salary available for house purchase on a selective basis.

10. The only other substantive recommendation was that the juvenile rate of London Weighting should be abolished. This was also something which was raised at the Prime Minister's December meeting. We propose to implement it as one of the changes resulting from the forthcoming London weighting review. The cost would be small (£0.1m) and the change is justified by the declining number of young people coming on to the labour market.

#### Conclusion

11. I recommend that you should endorse the conclusions of the report, and in particular the increase in the ceiling of LPAs.

12. You have already mentioned the LPA proposal to the Prime Minister, in your minute to her of [24] January. Other departments are aware of the report, through their participation in the working party. In the circumstances it might be courteous if you were to circulate at least the summary of recommendations to colleagues for information. I attach a draft letter for this purpose. It might be appropriate in view of the recent correspondence with you for it to be addressed to the Secretary of State for Defence.



P.P.

C W KELLY

**MANAGEMENT - IN CONFIDENCE**

**DRAFT LETTER FROM: THE CHANCELLOR  
TO: THE SECRETARY OF STATE FOR DEFENCE**

**CIVIL SERVICE PAY IN LONDON**

You may know that your department has been participating in <sup>an</sup> 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.

**MANAGEMENT IN CONFIDENCE**

**MANAGEMENT - IN CONFIDENCE**

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.

NL

## MANAGEMENT IN CONFIDENCE

FROM: MRS M J HARROP

DATE: 27<sup>th</sup> January 1989

- 
1. MR CHIVERS
  2. MR KELLY
  3. CHANCELLOR

cc Chief Secretary  
Paymaster General  
Sir P Middleton  
Mr Anson  
Dame Anne Mueller  
Mr Byatt  
Mr Monck  
Mr G H Phillips  
Mr Harris  
Mrs Lomax  
Mr Luce  
Mr Hansford  
Mrs Haworth  
Mr G Jordan  
Mr Richardson  
Ms Seammen  
Mr Strachan  
Mr Barker  
Mr Graham  
Mr Bell  
Mrs Luckin

## LONDON WEIGHTING

1. I attach the report of the inter-departmental Working Group on London Weighting. It is agreed by all the members, who come from 16 departments, and endorsed in general terms by their Principal Establishment Officers.

2. Two main conclusions emerge:

(i) Differential pay increases for civil servants working in and around London are needed urgently.

(ii) London Weighting is not a cost-effective way of giving such increases. The Group preferred to concentrate on the more targetted approaches of (a) additional payments under the flexible pay agreements where problems are fairly general, combined with (b) local pay additions (LPAs) to tackle acute problems on a selective basis, plus (c) some action to help groups with the worst difficulties over housing costs.

### THE PROBLEM

3. Ministers have already been told of the worsening resignation rates in London and the South East. These are a major part of the justification for the first conclusion. But the Working Group has also analysed the recruitment data, as well as considering the practical experience of departments represented on the Group. The result is depressing. There is no doubt that turnover is high, and the quality of junior recruits poor, in and around London, compared with other parts of the country. Both trends seem to be accelerating, and lead to inefficiency and extra costs, eg on recruitment, training and supervision, as well as the use of expensive agency staff where vacancies cannot be filled. These factors lead to poor morale among those who stay, and their managers. They have a cumulative effect, and reduce the pool of suitable candidates for promotion as the better junior staff can find other better paid opportunities more easily than those of poorer quality.

4. The Working Group's findings confirm the case for relocation. However, such moves cannot take place overnight and there will be an ongoing need for some staff in and around London. Future labour market trends are not encouraging: the fall in the number of school leavers may be to some extent offset by a continuing rise in the number of women who have paid employment (a group on whom civil service recruitment is being targetted) but the opening of the Channel Tunnel, and the prospect of the Single European Market in 1992, are likely to increase labour market pressures in the South East. The need for differential pay increases in and around London is therefore unlikely to be temporary.

### HOUSING AND TRAVEL

5. The cost of housing and travel in the South East is an important element of the problem. But it does not affect all civil servants equally. The Working Group identified three particular problem groups:

## MANAGEMENT IN CONFIDENCE

(i) young people, based in or near London, who joined the Civil Service while living at home but now want to enter the housing market. The ready availability of alternative jobs, some of them offering assistance with housing costs as well as better pay, obviously lead to some resignations - often at the very point where staff have been trained and gained experience, but where departments have had little return on their investment.

(ii) ~~people from relatively depressed parts of the UK who would be willing to work in London, but cannot afford even modest accommodation.~~

(iii) more senior staff whom it is important to move for managerial reasons. Those outside the South East fear that a move there, even on promotion, would lead to a lower standard of living. And those already in the South East are reluctant to move elsewhere if they expect to have to move back later.

This picture could of course change if house prices outside London continue to rise faster than those in London, but there are still very large differences in absolute terms, which will continue for some time.

6. Some of the Group's recommendations focus on these particular groups. For example, the possibility of giving, very selectively, 6 month salary advances (interest free, and repayable over 10 years after a 2 year "holiday") should be developed, and proposals put to Ministers. This facility is already available to those who move for managerial reasons, and could be extended to others without legislation - but its use would have to be restricted because of the potential cost. For new recruits, hostel accommodation is a possibility which is being revived. The financial arrangements for those moving for managerial reasons have recently been improved, and the need for further changes should be kept under review. The Group did not favour generalised mortgage subsidies or direct participation in equity schemes, but did recommend that the Treasury should circulate to departments information about mortgage and other opportunities available on the market.

**TYPE OF PAY INCREASES**

7. In the long term the Group would like London Weighting phased out, and replaced by a combination of moves under the flexible pay agreements and local pay additions. In the short term this is not negotiable: staff have a legal right to London Weighting, and it has to continue unless the Council of Civil Servants agrees to replace it with other payments of at least equivalent value. There is no prospect of such an agreement in 1989.

8. The Group therefore recommends that London Weighting should this year be frozen or, if this is impossible to negotiate, increased only very slightly. It favours the use of selective spine point increases under the long term pay agreements where there are general problems, but more scope to use local pay additions to help with acute problems - and also with places outside the London Weighting Zones. As the Group's work coincided with the negotiations with NUCPS and CPSA, they could make no recommendations on precisely how the eventual agreements could be used to help London, but they did make a number of recommendations on LPAs: in particular that the ceiling should be raised from £600 to £1000pa; that more grades should be covered; and that the averaging formula should be relaxed.

**COST**

9. The cost of these proposals will depend on how much use departments make of them. This, in turn, will depend on their running costs position - and on the size of the other, non-discretionary, pay increases which they face. Ideally, departments would like to double the amount of expenditure on LPAs (currently about £25m a year), but this assessment was made without knowing either the cost of, or the extent to which London salaries would be affected differentially by, the settlements with the NUCPS and CPSA.

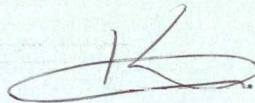
MANAGEMENT IN CONFIDENCE

10. Control over costs, and checks that they can be contained within existing provisions, must be a condition of the greater flexibility which Departments want. We are tightening up the arrangements to make sure this happens.

11. Inevitably, departments pressed for extra running costs to help tackle the London problem. When this was refused by the Treasury, some expressed worry that they would not be able to use the suggested pay flexibility because of the tightness of their running cost position. They were concerned that other departments, with less pressure on their existing provisions, would be able to pay their staff extra and that the competitive position of the "poorer" ones would suffer even more. In the end, however, no department dissented from the line in the report - that running costs limits had to be observed, and that it was nevertheless essential to have the greater flexibility to tackle acute problems of recruitment and retention.

**HANDLING**

12. The Chancellor will in due course want to circulate the report to Cabinet colleagues. Because of the state of negotiations with NUCPS and CPSA, however, we cannot yet make recommendations about exactly how and when this should be done. In the meantime, it would be helpful to have the Chancellor's endorsement of the general approach by the Working Group, and of the specific recommendations (copy attached).



*pp* MRS M J HARROP



**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 I SPARKES  
DATE: 31 January 1989

MR KELLY

*pwp*

cc Chief Secretary  
Paymaster General  
Sir P Middleton  
Mr Anson  
Dame A Mueller  
Mr Luce  
Ms Seammen  
Mr Graham  
Mr Flitton (IDT)

**LONG-TERM PAY AGREEMENT: NUCPS**

The Chancellor was grateful for your minute of 30 January confirming that you had reached agreement with the NUCPS negotiators on a long-term pay agreement. He congratulates you on this outcome and will be minuting the Prime Minister to advise her of latest developments today.

*DS*  
DUNCAN SPARKES



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

pwp

PRIME MINISTER

31/1/89.

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

Since my minute of 24 January, my officials have had further discussions with both the National Union of Civil and Public Servants (NUCPS) and the Civil and Public Services Association (CPSA), and with the Principal and Establishment Officers of the major departments.

They have now reached a provisional agreement with the NUCPS along the lines set out in my minute, which, after some final tidying up of the text, will be put to their national executive committee on 10 February. It will remain conditional until then.

The related talks with the CPSA about a similar agreement covering clerical, secretarial and related staff are also close to a conclusion and, once the agreement with the NUCPS is finally in the bag, my officials plan to press ahead to finalise the CPSA agreement. The form of this agreement is similar to that with the NUCPS, including the same geographical and other flexibilities, performance pay and the longer-term pay determination system.

The pattern of payments will also be similar, with 4% or the equivalent on 1 April, a differential payment for staff in London and further payments on 1 October averaging close to 4%. The range of increase on 1 October will, however, be rather wider than



for the NUCPS because, as part of the CPSA settlement, we will be making a modest lengthening of the pay scales.

Excluding London, the cost of 1989-90 excluding London would be 6%, with a carry-over to the second year of just under 2% - the same as for the NUCPS.

I am sending copies of this minute to colleagues on MISC(66) and to Sir Robin Butler.

A handwritten signature in black ink, appearing to be "NL".

[NL]

31 January 1989



*ppp*

10 DOWNING STREET  
LONDON SW1A 2AA

From the Principal Private Secretary

1 February 1989

*Dear Alex,*

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

The Prime Minister has seen the Chancellor of the Exchequer's minute of 31 January. She is content with the agreement which has been reached with the NUCPS.

I am sending copies of this letter to Private Secretaries to members of MISC (66) and to Trevor Woolley (Cabinet Office).

*Your sincerely  
Andrew*

CH/EXCHEQUER	
REC.	01 FEB 1989
<del>ACT</del>	EST PM G
COPIES TO	SIR P MIDDLETON MR. ANDREW
	DAME A MULLER MR KELLY
	MR LUCE
	MR SEAMING MR GRAHAM

*v2/2*

ANDREW TURNBULL

Alex Allan, Esq.,  
HM Treasury

PERSONAL AND CONFIDENTIAL

*owp*

*In the CMS,  
OK ✓*

FROM: C W KELLY

DATE: 1 February 1989

CHANCELLOR

cc Chief Secretary  
Paymaster General  
Sir P Middleton  
Mr Anson  
Dame Anne Mueller  
Mr Luce  
Ms Seammen  
Mr Graham

*Ch/ Given the timing of the unions' executive meetings it seems inevitable that we cant quite stitch up the NUCPS before tackling the CPSA. OK?*

**LONG TERM PAY AGREEMENTS**

*015*

1. Your minute of yesterday to the Prime Minister says that once the Agreement with the NUCPS is finally in the bag we plan to press ahead to finalise the CPSA Agreement. I thought that it would be sensible to record how we are interpreting that.

2. The most important step is to reach Agreement with the negotiators. We have effectively done that with the NUCPS unless the tidying up we are now doing throws up some unexpected surprises. We are therefore now trying to do the same with the CPSA.

3. But we also have to get the endorsement of the unions' National Executive Committees. Here the order of events is reversed. The CPSA's NEC meeting on 7 February, the NUCPS on 10 February.

4. This is to some extent accidental. But it also serves our purpose. Unless something totally unexpected happens (which can never be ruled out entirely), the CPSA NEC are as certain as anything ever is to endorse an agreement if we reach one with John Ellis. The moderates on the executive campaigned on the basis that, unlike the militants, they could reach a sensible agreement with us and would face serious difficulties when they come up for election again in a few months if they had nothing to show for it. This has been a weakness in their negotiating stance right from the beginning.

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5. Endorsement by the CPSA NEC of their Agreement will then increase the pressure on the NUCPS executive meeting three days later. They will know that if they stand aside they will be the only major civil service union without an Agreement. It will also make it more likely that they will decide to go to ballot directly, rather than wait for their main conference and then go to ballot. We would, of course, prefer them to go directly to ballot.

6. Leslie Christie would not have reached agreement with me unless he thinks that he can deliver his executive. But he is, quite rightly, a careful man and having once committed himself is determined to make the result as certain as possible. It is in our interest to help him do that.

7. Once the executive committees have reached their decision, we will want to publicise the respective Agreements immediately, ie on 8 February for the CPSA and either on 10 or probably 13 February (the Monday) for the NUCPS. If we delay until we can announce both together we run the risk of a leak and losing control of how the Agreements are presented.

*C W Kelly*

C W KELLY

P.P.



FROM: D I SPARKES  
DATE: 2 February 1989

MR KELLY

*pwp*

cc Chief Secretary  
Paymaster General  
Sir P Middleton  
Mr Anson  
Dame A Mueller  
Mr Luce  
Ms Seammen  
Mr Graham

**LONG TERM PAY AGREEMENTS**

The Chancellor was grateful for your minute of 1 February clarifying the final stages of the NUCPS and CPSA agreements. Given the timing of the unions' executive meetings, he is content to proceed as you propose.

*D.I.*

DUNCAN SPARKES



PERSONAL AND CONFIDENTIAL

*Thanks.  
Will done.  
Draft minor OK  
as stated*

FROM: C W KELLY

DATE: 3 February 1989

CHANCELLOR

*Ch/*  
This looks OK.  
Context to minute PM,  
as attached?

cc Chief Secretary  
Paymaster General  
Sir P Middleton  
Dame Anne Mueller  
Mr Luce  
Ms Seammen  
Mr Graham

*015*

CIVIL SERVICE PAY: CLERICAL AND SECRETARIAL GRADES

1. We reached agreement with the CPSA negotiating team late last night, after some difficult discussions. They will put the agreement to their Executive on 7 February for their endorsement. John Ellis expects it to be unanimous though this judgement cannot be relied on.

2. The terms are as I indicated to you previously - that is, 4% on 1 April, a differential payment for staff in London from 1 June and further payments on assimilation to the pay spine on 1 October averaging a further 4%. Because CPSA attached importance to lengthening the pay scales (an object we shared) there will be an extra half point added at the top of the AO, AA and related scales on 1 October within this cost. The range of increases will thus be wider than for NUCPS, with people at the maximum doing best.

3. Overall, the cost is no greater than for NUCPS; a first year cost of just under 6%, and full year cost of just under 8%, with extra money in both cases for people in London.

4. There is one important point I should bring to your attention. Previous agreements have involved settlements in the second year being informed by a levels survey but, for that year only, not being constrained by the inter-quartile range of pay movements. This leaves us at some risk; and certainly makes settlements more difficult to negotiate since, as with the IPCS settlement last year, union negotiators can allow quite unrealistic expectations to develop.

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5. We have been able to overcome this difficulty with both NUCPS and CPSA. Clearly, it would have been difficult to ask either to accept terms markedly worse than each other. But both saw the practical sense in constraining next year's settlement within the inter-quartile range of movements; and that has been agreed by both. There will be levels surveys, but they will be there to inform and not to constrain.

6. In return we have agreed to add a further half point to the top of the AA and AO and related scales during 1990-91, the cost of which (1%) will be counted against the inter-quartile range.

7. I attach a draft minute to the Prime Minister.

*CWK*

C W KELLY

PERSONAL AND CONFIDENTIAL

pls  
type

DRAFT MINUTE FROM: CHANCELLOR

TO: PRIME MINISTER

COPIES: Members of MISC 66 and to Sir Robin Butler

CIVIL SERVICE PAY: CLERICAL AND SECRETARIAL GRADES

1. In my minute of 31 January I indicated that talks with <sup>the</sup> CPSA, covering 195,000 clerical and secretarial grades, were ~~coming to~~ <sup>reaching</sup> ~~a~~ <sup>approaching</sup> conclusion. I am glad to say that provisional agreement has been reached along the lines set out in my minute. <sup>the</sup> CPSA will put it to their executive on Tuesday 7 February for endorsement, and it will remain conditional and confidential until then.

2. Assuming that the NUCPS executive also endorse their agreement on Friday 10 February, and both are then confirmed by their membership, we will have negotiated flexible <sup>long-term pay</sup> agreements covering the vast majority of the non-industrial civil service.

3. I am sending copies of this minute to colleagues on MISC 66 and to Sir Robin Butler.

COPIES LIST  
as per covering  
minute pls -

NL

ds/37.



pwp

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

**PRIME MINISTER**

cc PS/Chief Secretary  
PS/Paymaster General  
Sir P Middleton  
Dame A Mueller  
Mr C W Kelly  
Mr Luce  
Ms Seammen  
Mr Graham

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

In my minute of 31 January I indicated that talks with the CPSA, covering 195,000 clerical and secretarial grades, were approaching a conclusion. I am glad to say that provisional agreement has been reached along the lines set out in my minute. The CPSA will put it to their executive on Tuesday 7 February for endorsement, and it will remain conditional and confidential until then.

Assuming that the NUCPS executive also endorse their agreement on Friday 10 February, and both are then confirmed by their membership, we will have negotiated flexible long-term pay agreements covering the vast majority of the non-industrial civil service.

I am sending copies of this minute to colleagues on MISC 66 and to Sir Robin Butler.

*Duncan Sparkes*

p.p. [NL]

6 February 1989

[Approved by the Chancellor and signed  
in his absence]



*ppp*

CH/EXCHEQUER	
REC.	09 FEB 1989
<del>ACTION</del>	MR KELLY <span style="float: right;"><i>v9/2</i></span>
COPIES	PS / CST PS / PM G
	SER P HEDDLISTON DAME A FINEUR
	8 February 1989
	MR LUCE MS SEATTEN, MR GRAHAM

10 DOWNING STREET  
LONDON SW1A 2AA

From the Principal Private Secretary

*Dear Alex,*

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

The Prime Minister has seen the Chancellor's minute of 6 February and has noted with approval the pay agreement that has now been reached with the CPSA.

I am sending a copy of this letter to the Private Secretaries to members of MISC 66 and to Sir Robin Butler

*Yours sincerely*

*Andrew*

(ANDREW TURNBULL)

Alex Allan, Esq.,  
H.M. Treasury.