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Dear Mark,

Further to my letter of 7 November 2008, I understand that constructive discussions have taken place to address the concerns that form the basis of your current dispute.

In the Chief Secretary of the Treasury's letter to CCSU of 5 September 2008, she indicated that in order to help departments in the current tough affordability environment, she was prepared to consider some flexibility to recycle efficiency savings into pay. As that letter explained, this flexibility would be on an exceptional basis and would need to be decided case by case, supported by clear principles and guidance to manage the risks.

Having received further advice on this issue, including views from discussions, the Chief Secretary has decided to introduce such flexibility in the Pay Guidance for 2009/10, to be used in support of significant workforce reform. Changes will also have to be consistent with the Government principles for the modernisation of pay in the Civil Service which include:

- addressing pay differences, where appropriate, between departments;
- improving the pay systems by adopting shorter pay ranges where this is appropriate; and
- modernising pay systems to improve support for good performance.

Any reform or improvement to the pay of staff will need to be funded from within existing budget settlements and be consistent with the Government public pay policy.

The framework that needs to be set around these arrangements is currently subject to detailed work which will include yourselves and will need to recognise the implications of the challenging economic circumstances on public finances.

Turning to the issue of the perceived 2% pay limit, the parameters for Civil Service pay are of course set out in the Pay Guidance. But it is worth me reiterating the Chief Secretary's earlier assurance that there is no 2% limit on public sector pay.



I can confirm that the pay remit guidance covers the Civil Service and NDPBs.

I am pleased to note the progress that has been made by all sides through constructive dialogue and believe that further advancement can best be achieved by working collaboratively at all levels. I am happy to assure you that Departments will of course take every opportunity to seek to resolve existing pay disputes, without reopening any agreed or imposed existing pay settlements.

I look forward to hearing your views on how we might work together to resolve those matters that remain on our respective agendas. I have asked my Cabinet Office officials to agree with you, and your CCSU colleagues, the process to continue this dialogue on pay reform.

Yours ever,



Gus O'Donnell

