



30 April 09

Dear Colleagues

NATS Core Pay Negotiations

As you may know Prospect and PCS have been involved in detailed 'core' pay negotiations with NATS. These have been some of the most difficult and protracted pay negotiations that the NTUS has been involved in. As a result of those negotiations, management have now put a final offer to the unions for our consideration. This circular sets out the background to negotiations and sets out the timescale and process for consulting with members.

Negotiations on core pay started towards the end of 2008. Whilst the unions have sought to take forward the discussions as speedily as possible, their protracted and difficult nature has inevitably impacted upon the timescales that we ideally would wish to have achieved.

Management's initial position with regard to negotiations was that their preferred option was a 'pay freeze' for all staff as part of any 'core' settlement. By pay freeze management were effectively suggesting no increase to base salaries or allowances as part of this year's settlement. The trade unions robustly responded to this suggestion and indicated to management that should they seek to go down this route it would immediately result in a ballot of our members for industrial action.

In subsequent discussions management have tabled a number of offers which included a combination of consolidated and non-consolidated, pensionable and non-pensionable increases which were regarded as derisory by the unions. Added to this a range of unacceptable strings and conditions were attached to these offers which the unions rejected as unacceptable. Ultimately management made a final offer to the unions which we agreed to take back to our respective Executive bodies recommending acceptance. The ATCO Branch Executive alongside the ATSS Branch Executive and PCS Executive have now had the opportunity to consider management's final offer. After considerable debate and discussion the Executive bodies have now agreed to **recommend** management's final offer to the membership.

All the union executives believe that management's offer is the best which is achievable by negotiation. We also believe, given the current economic climate, that management's offer is acceptable and are recommending that members vote in favour.

Management's Offer

Whilst the trade unions had submitted a pay claim in September of last year based on the notion of a one year pay deal it became apparent during negotiations that management would only table a consolidated and pensionable pay increase which might be seen as acceptable by us on the basis that it was a two year pay deal taking us through to the end of 2010. Management's rationale for this was the unique set of economic circumstances in which we currently find ourselves. Whilst August 2008 RPI inflation was running at a relatively high level of 4.8% all major commentators predict August RPI inflation for 2009 to be running at a negative figure. Whilst there is a range of predictions for August 2009 RPI inflation, commentators have been consistent in their predictions of a negative figure and indeed the Treasury, Bank of England and Chancellor are predicting a negative RPI figure for September 2009 of -3%.

Against that backdrop NATS management have raised their severe concerns as to the impact that this will have on prices and income. They have described to the trade unions what they see as a double whammy with the impact of reduced flight volumes and at the same time a reduction in the costs that they are able to charge customers. Inevitably as part of this management have also raised their concerns about rising pension costs and their need to address the current deficit within the Pension Scheme.

Whilst the trade unions have been robust in our response with regard to these challenges, not least giving the likely profits to be made by NATS and the dividend to shareholders, we have had to be alert to the impact that falling revenues may have in terms of its impact upon our membership. We made it clear to NATS that the strings that they were seeking to attach to any pay deal in terms of changes to working practices and terms and conditions were completely unacceptable.

Against the backdrop of the above, management put a proposal to the unions effectively based upon a 2 year pay deal using a 'blended' rate of RPI. The unions made it clear to management that we would not wait until September (when the August 2009 RPI figure is to be published) in order to agree a consolidated and pensionable pay increase for staff. We also made it clear that any pay increase using a 'blended' formula had to be fully consolidated and pensionable and backdated to January 2009. As of part of the discussions we also made it clear that whatever the negative figure for RPI as of August 2009 we expected a guaranteed minimum pay increase to be paid on the completion of a ballot and for that increase to be backdated to January 2009. Very detailed and difficult negotiations took place around these issues.

During these negotiations management stated that whilst the unions were seeking a guaranteed minimum increase for staff, that they were seeking a cap on any settlement over the two year period of 3%. Management have now put a final proposal to the unions which includes the following elements:-

- A consolidated and pensionable increase to pay and pay related allowances for all negotiated grades of 2% backdated to 1 January 2009 for a period to the end of 2010.
- If August RPI in 2009 is less negative than -2.8% staff will receive a backdated increase for every 0.1% by which RPI is more favourable up to a maximum of an additional 1%. In effect this makes it possible for a maximum pay increase at 1 January 2009 of 3%.
- It is a condition of the deal that should RPI prove to be as or more negative than -3.5% in August 2009 that NATS and the NTUS will enter into early discussions to seek to address this issue.

Projection of RPI versus possible Consolidated Core Pay Increase

August 2009 RPI	Blended RPI	Pay Increase
-1.8	3.0	3.0 Max
-1.9	2.9	2.9
-2.0	2.8	2.8
-2.1	2.7	2.7
-2.2	2.6	2.6
-2.3	2.5	2.5
-2.4	2.4	2.4
-2.5	2.3	2.3
-2.6	2.2	2.2
-2.7	2.1	2.1
-2.8	2.0	2.0 Min

We recognise that this is a very different way for addressing core pay within NATS. This is as a result of the unique set of circumstances in which we find ourselves and the impact that negative RPI would have upon prices and income for the organisation.

Conclusion

Negotiations this year have proved to be extremely challenging. They take place against the background of a number of organisations within aviation seeking to impose pay freezes and pay cuts in real terms upon staff. It is clear as part of this that the preferred option of the Management Board was that there should be no consolidated or pensionable pay increase for staff over the next two years. Indeed in some discussions NATS had floated the concept of a pay cut for staff in 2009. This proposal met an extremely robust response from the trade unions when we made it clear that any such approach would be challenged both legally and industrially.

The trade unions believe that the package proposed by management will in effect deliver an at least RPI pay increase to our members over the period 2009/2010. Most commentators predict August 2009 RPI to be significantly more negative than -1.8% with many commentators predicting RPI inflation to be more negative than -2.8% whereby over the two year period this pay deal would deliver pay increase in excess of RPI inflation. Indeed the most recent predictions by the Treasury show RPI inflation running at a net figure of 1.25% over the two years i.e. projected negative RPI for this year and projected subdued but positive RPI in 2010.

The trade unions believe that the above settlement is the best achievable by negotiation. This settlement provides for a front loaded payment linked to RPI inflation over the two-year period. The trade unions have been successful in rejecting and severing the conditions and strings that management attached to previous offers in relation to changes in working practices and terms and conditions. In that context and taking into account broader trends within the UK economy and aviation in particular the unions are recommending that members vote to accept the offer.

The ballot process will commence from the 21 May concluding on the 18 June.

Yours sincerely

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Prospect National Secretary

PAUL SMITH

PCS National Officer