PREM 19/676

SECRET

M-5

33/74

PART 12

Confidential Filing

Pay & Pensions

84

Pay Dispute / Strike

Civil Service

Pt 1 May 1979

Pt 12 July 1982

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
~~8.7.82~~		18.11.82					
~~9.7.82~~		— Pt Ends —					
~~12.7.82~~							
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~~15.11.82~~							

PREM 19/676

PART 12 ends:-

18. 11. 82

PART 13 begins:-

19. 11. 82

TO BE RETAINED AS TOP ENCLOSURE

Cabinet / Cabinet Committee Documents

Reference	Date
MISC 80 (82) 6th Meeting, Minute 1	8.7.82
LCA to CC (82) 37th Conclusions, Minute 4	8.7.82
MISC 80 (82) 7th Meeting, Minutes	9.7.82
MISC 84 (82) 2, 3 and 4	16.7.82
MISC 84 (82) 5	20.7.82
MISC 84 (82) 6	21.7.82
MISC 83 (82) 1	23.7.82
MISC 84 (82) 7	23.7.82
MISC 83 (82) 1ST Meeting, Minutes	27.7.82
MISC 84 (82) 16, 17, 18 and 19	3/6/9/13.9.82
MISC 83 (82) 2	21.9.82
E (PSP) (82) 17	21.9.82
MISC 84 (82) 20	24.9.82
E (PSP) (82) 19	27.9.82
MISC 84 (82) 21	27.9.82
MISC 84 (82) 22	28.9.82
MISC 84 (82) 23	1.10.82
MISC 84 (82) 24	4.10.82
MISC 83 (82) 3	28.10.82
MISC 84 (82) 25	28.10.82
MISC 83 (82) 2nd Meeting, Minutes	2.11.82
MISC 84 (82) 26	15.11.82
MISC 84 (82) 27	17.11.82
MISC 84 (82) 29	18.11.82

The documents listed above, which were enclosed on this file, have been removed and destroyed. Such documents are the responsibility of the Cabinet Office. When released they are available in the appropriate **CAB** (CABINET OFFICE) CLASSES

Signed A Wayland Date 21 June 2012

PREM Records Team

E.R.
Civil Service

(2) 9

Prime Minister
To note
MCS 12/11

MR SCHOLAR

cc Mr Mount

MEGAW: SAFEGUARDS

I think I should report to you the progress being made by the Official Group (in which I participate) on incorporating adequate safeguards into a Megaw pay system, following your letter of 8 November to the Chancellor's office conveying the Prime Minister's views. Since these discussions will be continuing early next week, it would be helpful to know if the Prime Minister is content with the way in which they are moving.

I think a good deal of progress has been made, and that subject to a careful look at the detailed drafting we will be able to come up with safeguard provisions that I will feel able to recommend to the Prime Minister. As you know, I have had a number of bilateral discussions with Peter Le Cheminant about it. The eventual Pay Agreement could incorporate quite an arsenal of safeguards, notably:

(i) Termination. Either side would be permitted to terminate the Agreement, without having to give an explanation, at six months notice (or possibly three months, which might be more advantageous to the Unions than to us). This would be an irrevocable act, and not subject to approval by a third party such as the House of Commons.

(ii) Suspension. Similarly, either side would be enabled to suspend the Agreement for a specified period (normally twelve months) after a similar period of notice. This particular provision may cause difficulties in the negotiations.

(iii) Revision. Either side would also have the right to ask for revisions to be made to the Agreement in the light of

changing circumstances; a particular amendment could of course only be insisted upon by threatening termination.

(iv) Statutory Override. Since the Government and the Unions will not be entering into a legally binding agreement (just as the old Pay Agreements were not legally binding), the Agreement would automatically be overridden by national pay policies having statutory force.

(v) Imposition. And the Treasury have now agreed that we should seek to negotiate the power to impose a settlement outside the interquartile range, subject to the consent of Parliament.

It is this last provision which gives the Government what it really needs, ie the power to avoid paying at least the lower quartile, if it finds there are good reasons for not doing so. It is negotiable with the Unions only if it is subject to parliamentary agreement, and we shall have to accept a form of words limiting the circumstances under which we could seek that. But it would be a considerable advance on the system as first proposed. The other safeguards are desirable, but much less significant.

12 November 1982

CONFIDENTIAL

B/F

File

JR

Cabinet

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10 DOWNING STREET

From the Private Secretary

8 November 1982

G/c J. Vereker

Dear Margaret,

THE MEGAW REPORT

The Prime Minister has studied the Chancellor's minute of 4 November about the conclusions of the Ministerial Group on the Megaw Report (MISC 83).

The Prime Minister has commented that, before she can take a view as to whether the Megaw recommendations are an acceptable basis for negotiations on a new pay system, she will wish to be satisfied that the safeguards to which the Chancellor refers can be made adequate. She hopes, accordingly, that further work by officials can be done on:

(i) the definition of the circumstances in which suspension and termination provisions might be brought into action, the period of notice, and whether such suspension should require the consent of the House of Commons;

(ii) the extent to which a system incorporating regular annual reviews can be reconciled with the avoidance of regular annual awards: the Prime Minister also wonders whether we should be encouraging the Review Bodies to move away from automatic annual increases;

(iii) the possibility of charging the proposed Pay Information Board with responsibility for taking recruitment and retention data, and job security, into account before reaching the conclusions of its comparability work.

The Prime Minister will wish the issue to be discussed in E Committee once this further work has been completed.

I am sending a copy of this letter to the Private Secretaries to members of the Cabinet, the Attorney General and the Lord Advocate, and to John Sparrow and Sir Robert Armstrong.

Yours sincerely,

Michael Scholar

Miss Margaret O'Mara,
HM Treasury.

(1)

Prime Minister

Agree to x, and to (i)-(iv) being completed before a Cabinet discussion about whether to go for a Megaw system?

MCS 5/11

MR SCHOLAR

cc Mr Mount
Mr Walters

MEGAW

In his note of 4 November, the Chancellor reports to the Prime Minister the endorsement by MISC 83 of the Megaw recommendations as a basis for seeking to negotiate a new civil service pay system. The Prime Minister has received much recent advice from us about Megaw, most notably in the papers leading up to your letter of 22 October to the Chancellor; and I think there is no need to repeat our views on the substance of the Megaw recommendations.

The essence of the position taken by MISC 83, as reported by the Chancellor, is that a Megaw system is acceptable provided there are satisfactory safeguards (paragraph 7). Since it is not yet established whether such safeguards could be made satisfactory, it is strange that MISC 83 could be "firmly of the view" (paragraph 6) that Megaw is an acceptable basis for negotiation. Since the Chancellor indicates (paragraph 8) that we have still a little time before the Government's position need be made public, we think it essential that the promised official work be completed before we let ourselves in for the Megaw system.

We suggest, therefore, that if the Prime Minister agrees, your reply to the Chancellor might say that the Prime Minister recognises that it will be difficult to avoid opening negotiations with the Unions about Megaw; but that before she can agree that the Government has to accept that the Megaw recommendations are the basis for negotiations on a new pay system, she will wish to be satisfied that the safeguards to which the Chancellor refers can be made adequate.

X

Further work by officials should proceed urgently, therefore, on four fronts:

(i) The examination of suspension and termination provisions. Clearly there will have to be a break clause, under which any Pay Agreement can be ended by either side; but there should also be provision for temporary suspension under certain circumstances. The official work should address itself to the definition of those circumstances, the period of notice, and whether such suspension should require the consent of the House of Commons.

(ii) The extent to which a system incorporating regular annual reviews can be reconciled with the avoidance of regular annual awards, a point to which MISC 83 clearly attached importance. Officials ought to consider this in the context of the possibility of encouraging Review Bodies also to move away from automatic annual increases.

(iii) The possibility, as suggested in your letter of 22 October, of charging the proposed Pay Information Board with responsibility for taking recruitment and retention data, and job security, into account before reaching the conclusions of its comparability work.

(iv) The draft of a public statement, or announcement to the Government's employees; the Prime Minister will wish to consider these texts carefully.

The Prime Minister may feel that there ought to be a discussion in the full Cabinet of the implications of going for the Megaw system, when this essential further work has been completed.

When (ii) (iii) & (iii) are complete, we will discuss w L, whether Megaw Secretary not

5 November 1982

FJV

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

PRIME MINISTER

THE MEGAW REPORT

The Ministerial Group on the Megaw Report (MISC 83) met on 2 November to consider whether the Megaw recommendations provided an acceptable basis for seeking to negotiate a new pay agreement with the Civil Service trades unions; and what, if anything, the Government should say publicly at this stage about its attitude to the recommendations. This minute reports the Group's conclusions.

2. MISC 83 recognised that a system based on the Megaw recommendations would entail limitations on the freedom of manoeuvre of the Government:

(a) The Government would be committed to offering a pay increase of at least the same amount as the lower quartile of settlements in the private sector for broadly comparable occupations. The level of the lower quartile would be estimated by an independent body. Other factors, such as job security and our ability to pay, would be brought to bear on negotiations as part of the process of placing the Civil Service pay settlement within the inter-quartile range of current private sector pay settlements. (It is worth noting, however, that unlike the negotiations which took place under the old PRU system, these new-style negotiations would be informed by a stream of information from the proposed Information Board on such matters as the recruitment and retention experience of the Civil Service as compared with the private sector, and so on.)

(b) The Government would be committed to financing pay settlements reached on this basis. But there would be no presumption

that this would involve new money: on the contrary, part of the cost might well be found by improved efficiency or more rapid manpower reductions, as with the last two Civil Service pay settlements.

(c) If the proposed 4-yearly total remuneration surveys showed that the remuneration of any group of civil servants was below the lower quartile of pay levels for comparable staff in the private sector, the Government would be committed to bringing them back within the inter-quartile range as quickly as the upper limit on pay increases within the Megaw system (that is, the upper quartile of comparable private sector pay settlements) would allow.

3. On the other hand, a system based on the Megaw recommendations offers us significant advantages and requires the unions to accept important restrictions on their own freedom. Megaw explicitly recognises the crucial importance of recruitment, retention and motivation, and the need to take full account of the financial consequences of pay settlements. The trade unions would be committed to negotiating within the inter-quartile range of private sector pay settlements, so that there would be a clear upper limit on the amount that they could claim. Civil Service pay settlements would keep closer to movements in the market; this would avoid the need for the disruptive 'catching up' increases which were a factor of the previous pay system. Finally, there is a good chance that a system on the lines recommended by Megaw, by limiting the room for argument, would significantly reduce the risk of industrial action.

4. We shall not get these advantages unless we are willing in return to accept the commitments described in paragraph 2 above. There is obviously no prospect of an agreement which places restrictions on the unions but leaves us totally free.

5. A further point to which MISC 83 attached importance is the way which, over so much of the field, Megaw's recommendations reflect the evidence we gave to his Committee. This extends beyond the central pay determination system itself (a clear break with the concept of a single "right" level of pay, use of private rather than public sector comparators, adequate weight to the experience of small firms, a truly independent data source, etc) into areas of management policy (merit pay, internal relativities, pensions, etc) where the Megaw recommendations are helpful to the policies we wish to pursue. In short, the totality of Megaw is overwhelmingly favourable to our views and, if implemented, would give us an approach to Civil Service pay and related matters altogether more realistic and relevant to the market and private sector practice than the discredited PRU system which we abandoned. Given this, the Group saw considerable difficulty in defending rejection of the recommendations of the Committee we had ourselves set up and which has extensively endorsed our views. Moreover, there is no possibility of an alternative system to that recommended by Megaw which would be acceptable to us and negotiable with the unions. The only alternative would be free collective bargaining. It is far from certain that this would be cheaper in the long run; it would be likely to involve considerably greater risk of industrial strife.

6. The Group was therefore firmly of the view that the Government should accept the Megaw recommendations as a basis for seeking to negotiate a new pay system. This does not, of course, commit us to seeking an agreement at any price. Nor are we bound to accept every detail of the Megaw recommendations. If, as the negotiations develop, it becomes clear that the detailed arrangements which are acceptable to the unions are not acceptable to us it will be perfectly possible to say that, having tried and failed to build a system on Megaw, the Government has no alternative but to seek a conceptually different solution.

7. Moreover, the Group thought it essential that any new pay agreement should contain certain safeguards. It must contain provisions for its own termination. There will also need to be some form of Parliamentary override on settlements, arbitration awards, or both, when economic circumstances require this. The Group was also concerned that a system based on the Megaw recommendations should not reinforce the concept of an automatic annual pay increase: it would, for example, be foolish to be committed to a general Civil Service pay increase of ½ per cent simply because that was the lower quartile of national pay settlements. Officials have been instructed to consider whether there are ways of surmounting this difficulty.

8. Finally, the Group considered the question of a public statement of the Government's attitude to the Megaw recommendations. It is becoming increasingly desirable for us to declare our views, and it is important that we should declare them before the Civil Service union special conferences which are due to take place in early December. However, both the form and the timing of any statement will need careful consideration. It is not necessarily right to suppose that any statement should be made primarily to Parliament or the media: it is at least as important for us to communicate our views to our own employees. Officials have been instructed to prepare the draft of a statement and to advise on its form and timing.

9. I am sending copies of this minute to other members of the Cabinet, to the Attorney General and the Lord Advocate, and to Mr Sparrow and Sir Robert Armstrong.

[GH]
4 November 1982

Civil Service, Reg. Pt 12

Mrs Thatcher

5 NOVEMBER 1982

Policy Unit

8

The nurses review body point is now a water under the bridge. Agree to Y?

Top Copy on National Health, Nurses Pay, Pt 2

PRIME MINISTER

CABINET, 4 NOVEMBER: INDUSTRIAL RELATIONS: PAY

MCS 3/11

Mr Fowler's proposals on nurses' pay, the miners' ballot result, and the decisions needed on the Megaw report raise far-reaching and fundamental issues about the Government's approach to pay and industrial relations. We see a clear risk that decisions are going to be taken which will set in concrete existing assumptions and expectations about pay. These run counter to what is needed to increase employment.

The Industrial Relations Background

We have achieved a significant and probably permanent shift in the balance of power, towards employers and away from unions. The unions have declining membership; increasing financial difficulties; and no role in Government. The three constituent elements of the triple alliance have each in turn been defeated - the steel workers after a long and fruitless strike in the first half of 1980, the railway workers after two strikes earlier this year, and the miners' executive has twice running been contradicted by the membership. Public service unions are even less effective: whatever the direct costs of the civil service strike of 1981, one clear benefit is that the civil service unions will be most reluctant to stage a repeat performance; and the health service unions show every sign of having no idea how to keep up the momentum of their industrial action. In the private sector, there have been few serious disputes in the lifetime of this Government, because the consequences in lost jobs are all too clear.

Now is the time, therefore, to follow up this advantage on all fronts: to give not an inch to those unions, such as NUPE, whose backs are to the wall; and to drive the hardest possible bargain with those, such as the water workers, who still have disruptive potential.

SECRET

The Longer Term

And now is the time to think of the longer term, and the next Parliament, during which we must get away from automatic annual pay increases, if we are to get our unit labour costs down to those of our competitors. We must prepare the ground for low multi-year settlements; for the end of the concept of the pay round; for greater regional pay differences; and, above all, for any pay increases to be linked to performance. The Government will be giving up all hope of taking a lead in these developments if it goes on putting more and more of public sector pay into the hands of arbitrators, review bodies, and Megaw-type systems. Affordability and market factors, the corner stones of our policy, will disappear from sight, to be replaced by an ever more pervasive, and ever less realistic, going rate.

Present Issues

Against that background it is clear to us that to offer the nurses a review body is unnecessary and undesirable. It is unnecessary because it is the unions, not the Government, who need a way out of the dispute, and because there are other and less damaging ways of meeting the Government's commitment to the nurses (these were covered in John Vereker's earlier note, which you have seen). It is undesirable because it takes a very large number of public servants out of market-determined pay, and almost certainly sets a norm for the whole NHS.

Structuring the pay offer so as to provide 12.3% from August 1982 to March 1984, which Mr Fowler will propose, is also undesirable. He has authority to offer 7½% for this year and 4½% for next and it is far better to stick to those, defensible, figures than to put over 12% into circulation. And even if a Review Body/12.3% deal were to prove acceptable to the nurses, we still continue to doubt whether settling with the nurses makes it easier to settle with the TUC affiliates. It is not the nurses who are on strike.

Megaw will no doubt come to Cabinet separately. But it hangs like a shadow over all discussions of public service pay. The Chancellor's Committee, MISC 83, is recommending it. If we have to have it, it must be made consistent with our longer term objectives by the inclusion of satisfactory safeguards, including provision for temporary suspension at reasonably short notice.

Finally, the outcome of the ballot on miners' pay raises several questions about the future handling of coal issues. The most immediate is the point on which we understand Mr Lawson will be writing round today: how to get into circulation the fact that the pay offer amounts to only 6½% on average earnings. There are still dangers with the miners, especially over pit closures, and we should avoid allowing Scargill to accuse the NCB of bad faith. Bernard thinks it would be right to go as far as arranging a written PQ, the answer to which would contain the right figure, and drawing the media's attention to it. We agree.

I am sending a copy of this note to the Chancellor of the Exchequer.

FM

FERDINAND MOUNT

SECRET

H. M. TREASURY

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

3 November 1982

LONDON WEIGHTING FOR THE NON-INDUSTRIAL CIVIL SERVICE

The Treasury announced today that agreement has been reached with the Council of Civil Service Unions about the rates of London Weighting allowance payable to non-industrial civil servants working in the London area. With effect from 1 April 1982 these will be £1,220 in the inner zone and £500 in the outer zone.

PRESS OFFICE
HM TREASURY
PARLIAMENT STREET
LONDON SW1P 3AG
01-233 3415

209/82

NOTES FOR EDITORS

1. The rates of London Weighting allowance payable to non-industrial civil servants in the London area before the present settlements were £1,087 in the inner zone and £454 in the outer zone.

2. Out of a total of 520,000 non-industrial civil servants some 80,000 receive London Weighting at the "inner zone" rate and some 45,000 at the "outer zone" rate. The inner zone extends for 5 miles from Charing Cross; the outer zone to about 18 miles from Charing Cross.

3. The additional cost of the settlement in a full year will be about £13 million or 0.3 per cent of the pay bill of the non-industrial Civil Service.

Civil Service
& JV

CONFIDENTIAL

2 MARSHAM STREET
LONDON SW1P 3EB

Prime Minister (2)

MCS 3/11

My ref: H/PSO/16802/82

Your ref:

2 November 1982

MT

Dear Geoffrey

CIVIL SERVICE "SINGLE OUTSIDE ANALOGUE" GRADES

Thank you for sending me a copy of your letter of 1 October to William Whitelaw.

For the reasons which you give, it would seem sensible to continue for another year the pay links between the civil servants in question and their outside analogues. So far as DOE is concerned, the number of staff involved is fairly small (the largest group being the police in the Royal Parks) and what is proposed could be accommodated within our cash limits.

There is also a great deal of sense in principle in the proposition that in the future we should seek to break the outside pay links, when a new pay determination system for civil servants in general has been evolved on the basis of the Megaw Committee's recommendations. But we must clearly wait until we can see the shape of the new system before committing ourselves to specific policies in such difficult areas as the pay of the departmental police forces.

Although you did not specifically refer to staff of fringe bodies, I assume that as in previous years the intention is to maintain analogue links with the Civil Service or other public service model as appropriate, subject to the cost being contained within the cash provision. I mention this only because the potential difficulty for cash limits is perhaps greater in the fringe body context. The implications for the pay links of fringe bodies will clearly have to be borne in mind if the general principle of single analogue links within the Civil Service is to be abandoned.

I am copying this to recipients of yours.

Yours ever

MICHAEL HESELTINE

The Rt Hon Sir Geoffrey Howe QC MP

CONFIDENTIAL

Civil Service Pay & Pensions
Pt 12

Civil Service

Prime Minister (2)

MCS 1/11

MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

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

MO 20/17/6

29th October 1982

Dear Geoffrey

CIVIL SERVICE "SINGLE OUTSIDE ANALOGUE" GRADES

I am content with the general approach proposed in your letter to Willie Whitelaw of the 1st October 1982 and would wish the consultations with my officials which have already begun to continue in examining the various pay links.

So far as the MOD Police are concerned, in this round, alternative means are being studied of ensuring that the net value of the pay settlement does not exceed the 5.6% to be paid to Home Department Police Forces. This is because the reduction of rent allowance would not apply to a substantial percentage of MOD police officers who occupy free quarters.

Subject to the usual consultations prior to commitment to particular pay offers in this round, I would expect resulting settlements to be accommodated within existing cash limits.

I am copying this letter to the recipients of yours.

Yours ever

John Nott

The Rt Hon Sir Geoffrey Howe QC MP

Civil Service, Pay, Pt 12

10 DOWNING STREET

(1)

Prime Minister

You agreed to 12% for Civil Service London Weighting subject to discussion on the date of the announcement.

Sir K Joseph would like an early announcement, because it would help with the teachers' arbitration.

Agree to an announcement on Tuesday or Wednesday next week (Mr Fowler would not object)?

Yes MT

MCS 29/10

SECRET

File 7 da

bc. JV

Copy No. 9 of 9 Copies

Civil Service

10 DOWNING STREET

From the Private Secretary

28 October 1982

Dear Margaret,

London Weighting for the Civil Service

The Prime Minister was grateful for the Chancellor's minute of 13 October about London Weighting for the Civil Service. She has also seen letters from the Education Secretary and the Health and Social Services Secretary dated respectively 18 and 26 October.

BF

The Prime Minister accepts the arguments for a 12% settlement, but has commented that she would wish to consider further the date upon which there would be any announcement.

I am sending copies of this letter to Imogen Wilde (Department of Education and Science), Richard Mottram (Ministry of Defence), David Clark (DHSS), Barnaby Shaw (Department of Employment), Mary Brown (Lord Privy Seal's Office) and Richard Hatfield (Cabinet Office). I would be grateful if you and they could ensure that this letter is seen only by those who clearly need to know.

Yours sincerely,

Michael Scholar

Miss Margaret O'Mara,
HM Treasury.

SECRET

da

6

COPY 1.

cc JV

(1)

Prime Minister

You were unhappy about 12% but decided to await Mr Fowler's and Sir K Joseph's views. They both wanted proper 12% to be subject to discussion on the deal – announcement – Yes not arbitration.

Agree to 12%?

MCS 27/10

DEPARTMENT OF HEALTH & SOCIAL SECURITY

Alexander Fleming House, Elephant & Castle, London SE1 6BY

Telephone 01-407 5522

From the Secretary of State for Social Services

The Rt Hon Sir Geoffrey Howe, QC MP
Chancellor of the Exchequer
Treasury Chambers
Great George Street
LONDON SW1

26 October 1982

Dear Geoffrey

LONDON WEIGHTING FOR THE CIVIL SERVICE

Thank you for sending me a copy of your minute of 13 October to the Prime Minister about the implications for NHS pay.

My view is that the outcome of the current dispute in the NHS would not be significantly prejudiced by a 12 per cent increase in the civil service London Weighting. There is no logical or historical connection between the two negotiations and although the health service unions may make some play of a 12 per cent figure they are unlikely to try very hard or to achieve much effect.

However I think we must accept that a settlement of that order would flow through to the settlement of London Weighting in the NHS. There is a logical and historical connection between these negotiations. Existing funding limits the increase in the NHS to 6 per cent. The negotiators have been advised to this effect; an offer has not so far been made and there would in any event be difficulty in securing an agreement at this level. I should need the agreement of colleagues to draw on the contingency reserve to bridge the gap between 6 per cent and the level of the civil service settlement. In the case of a 12 per cent settlement this would be £6.75m in the current year (the full year cost for the 1983/4 base line would be £9m).

Arbitration on the civil service claim would be unhelpful. It would be the second occasion this year and make it more difficult to defend our denial of arbitration in the NHS pay dispute. On timing, too, a 12 per cent settlement now in the civil service is unlikely to prejudice the handling of the present pay dispute. Other agreements around and above this figure will also be emerging. A referral to arbitration could, however, be injurious as could the emergence of the award in six weeks' time.

In summary, I would prefer a settlement of the civil service claim at 12 per cent to arbitration on the understanding that a settlement at this level has repercussions for the NHS, outlined in paragraph 3. If these are agreed by colleagues I can see no need for a discussion in E(PSP).

E.R.

SECRET

Perhaps I should add that if we go down this road I propose to hold up the notification of a revised limit in the NHS negotiations until we secure a framework for a settlement of the pay dispute (as well as until after a settlement has been secured in the civil service). This is essential to avoid weakening the firm line we are holding on the funds available for pay increases in the current year. On the handling of the Civil Service negotiations, I assume that you would offer 12 per cent only if assured that this would produce a settlement.

I am copying this letter to the Prime Minister, the Secretary of State for Education and Science, the Secretary of State for Defence, the Secretary of State for Employment, the Lord Privy Seal, and Sir Robert Armstrong.

cc. (1)

Yours Norman

NORMAN FOWLER

Civil Service

Pay & Pensions

MG

cc SV

NBPM

MS 28/10

DEPARTMENT OF HEALTH & SOCIAL SECURITY

Alexander Fleming House, Elephant & Castle, London SE1 6BY

Telephone 01-407 5522

From the Secretary of State for Social Services

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
Treasury Chambers
Great George Street
London SW1

25 October 1982

Dear Geoffrey

CIVIL SERVICE "SINGLE OUTSIDE ANALOGUE" (SOA) GRADES

I am content with the general approach in your letter of 1 October to Willie Whitelaw and confirm that we can accommodate the cost of the resulting 1983/84 settlement within existing cash limits.

I should just mention the pay review of our senior nursing grades which was already being planned. This was needed partly because their National Health Service analogue was disappearing on reorganisation and partly because the application of the Single Outside Analogue method had produced some unacceptable anomalies.

Officials will now be considering urgently whether these plans need any revision in the light of your letter. I agree that in any case a major change could probably not be implemented before 1 April 1984.

Yours, Norman

NORMAN FOWLER

Civil Service

Pay & Pensions

PERSONAL AND SECRET

5

MINISTRY OF DEFENCE
WHITEHALL LONDON SW1A 2HB
Telephone 01-218 6621 (Direct Dialling)
01-218 9000 (Switchboard)

Minister of State
for Defence Procurement

D/MIN/TT/22/2

22 October 1982

Dear Geoffrey

LONDON WEIGHTING FOR THE CIVIL SERVICE

Thank you for the copy of your minute to the Prime Minister of 13th October which you sent to John.

We think that the choice between the two alternatives you mention should be made essentially in the light of its possible effect on other negotiations and disputes in the public service. Our personal preference would be to try and reach agreement with the Civil Service Unions rather than go to arbitration. But I accept that NHS considerations may well point to arbitration.

I am copying this letter to the recipients of your minute.

Yours
Tom

Trenchard

The Rt Hon Sir Geoffrey Howe QC, MP

PERSONAL AND SECRET

Civil Service, Pay, P712

bcc: JV

B/15

10 DOWNING STREET

From the Private Secretary

22 October 1982

Dear John,

Megaw

As you know, the Chancellor and the Prime Minister have not been able to find time over the last week or so to discuss the central recommendations of the Megaw Report. It now seems unlikely that it will be possible to arrange a discussion before the meeting of MISC 83, and I am therefore writing to indicate the Prime Minister's general view of the Megaw proposals.

The Prime Minister is concerned that the Government's two principal criteria for any new pay system, of which much was made in our evidence to the Inquiry, will not be adequately met if we adopt the Megaw proposals.

(1) First, the Prime Minister does not think it possible for the Government to relinquish its ultimate responsibility for deciding what can be afforded. Under the Megaw system the Government could not avoid paying at least the lower limit of the Inter-Quartile Range, save by abrogating the Agreement. The Prime Minister would be grateful if the Chancellor would carefully consider the extent to which further safeguards of affordability could be incorporated; and she hopes that MISC 83 will recognise the difficulty of accepting the Megaw system without such safeguards.

(2) B/12 Second, the Prime Minister is concerned that both the Inter-Quartile Range and the outcome of the 4-yearly total remuneration survey are determined by a process of pure comparability, with no role for market forces until the negotiating stage is reached. She wonders whether it would be possible, and if possible desirable, to charge the proposed Pay Information Board with responsibility for taking recruitment and retention data, and job security, into account before reaching the conclusions of its comparability work.

Yours sincerely,

Michael Scholar

John Kerr, Esq.,
H.M. Treasury.

CONFIDENTIAL

(1)

Prime Minister

You really have no time for a meeting. Shall I write as John suggests?

MCS 21/10

MR SCHOLAR

cc Mr Mount

Yes please MT

MEGAW

The Prime Minister and the Chancellor are clearly not going to find it easy to make time for a proper discussion of Megaw. I do not think it can be settled by their having a brief word in the margins of their regular meetings. But it is important that the Chancellor is given a clear understanding of her position before his Committee (MISC 83) meets.

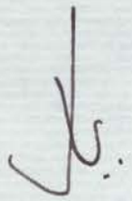
The separate discussions, which I have attended, held by the Prime Minister and by the Chancellor have established that one issue (among the many that Megaw raises) is paramount: the degree of commitment by the Government to the system. The Prime Minister does not want to relinquish the Government's ultimate responsibility for deciding what can be afforded. The Treasury thinks the Megaw system will seldom generate figures much higher than we would have to pay anyway. I have taken this a little further with Peter Le Cheminant. It may be possible to construct satisfactory safeguards: instead of a "break clause", under which any Pay Agreement can be ended by either side, there might be provision for temporary suspension under certain circumstances. The circumstances, the period of notice, and the suspending authority (ie Government or House of Commons) would have to be negotiated with the unions. I think this is worth pursuing, particularly if Ministers conclude that some form of negotiation with the unions is unavoidable.

There are, I suggest, now two ways of proceeding:

(i) Arrange a separate meeting between the Prime Minister and the Chancellor (and whomever he wishes to accompany him), next week. MISC 83 cannot now meet until the following week anyway.

(ii) Record the Prime Minister's views in a letter to the Chancellor's office.

I think the first course is best, but I recognise that the second course may be easiest. You may find the attached draft letter to the Chancellor's office helpful: it concentrates on the two points, affordability and market factors, which have all along been at the centre of our concern.



21 October 1982

CONFIDENTIAL

DRAFT LETTER TO THE CHANCELLOR'S PRIVATE SECRETARY

MEGAW

As you know, the Chancellor and the Prime Minister have had only a short word about whether the Government can accept the central recommendations of the Megaw report. We had hoped that it would be possible to arrange a fuller discussion, and to reach broad conclusions, before the meeting of MISC 83, but that now seems unlikely. I am therefore writing to indicate the Prime Minister's general view of the Megaw proposals.

The Prime Minister is concerned that the Government's two principal criteria for any new pay system, of which much was made in our evidence to the Inquiry, will not be adequately met if we adopt the Megaw proposals.

First, the Prime Minister does not think it possible for the Government to relinquish its ultimate responsibility for deciding what can be afforded. Under the Megaw system the Government could not avoid paying at least the lower limit of the Inter-Quartile Range, save by abrogating the Agreement. The Prime Minister would be grateful if the Chancellor would carefully consider the extent to which further safeguards of affordability could be incorporated; and she hopes that MISC 83 will recognise the difficulty of accepting the Megaw system without such safeguards.

Second, the Prime Minister is concerned that both the Inter-Quartile Range and the outcome of the 4-yearly total remuneration survey are determined by a process of pure comparability, with no role for market forces until the negotiating stage is reached. She wonders whether it would be possible, and if possible desirable, to charge the proposed Pay Information Board with responsibility for taking recruitment and retention data, and job security, into account before reaching the conclusions of its comparability work.

CONFIDENTIAL

cc JV

NORTHERN IRELAND OFFICE
GREAT GEORGE STREET,
LONDON SW1P 3AJ

NBPM

MCS 21/10

SECRETARY OF STATE
FOR
NORTHERN IRELAND

The Rt Hon Leon Brittan QC MP
Chief Secretary
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

21 October 1982

Dear Leon

CIVIL SERVICE SINGLE ANALOGUE GRADES

You wrote to Willie Whitelaw on 1 October with proposals regarding the pay of civil servants whose pay has traditionally been linked to specific outside pay rates. I am content with your general approach and can confirm that the comparable officers in Northern Ireland would be similarly dealt with, and that the resource consequence would be contained within the agreed cash limits.

I am copying this letter to the recipients of yours.

Yours

Jim

CONFIDENTIAL

ssd

cc JV

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

(4)

Prime Minister

CONFIDENTIAL

The Rt Hon Sir Geoffrey Howe QC MP
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

MCS 21/10

20 October 1982

Dear Geoffrey,

CIVIL SERVICE "SINGLE OUTSIDE ANALOGUE" GRADES

For the reasons set out in your letter of 1 October to Willie Whitelaw I agree that generally we should continue to maintain the SOA pay arrangements until we have decided on Megaw and beyond.

I shall do all I can to meet the additional costs from within the existing cash limits for salaries and wages, but some 5% of Scottish Office staff have links with those in outside employment compared with 3% for the Civil Service as a whole. The consequences therefore of maintaining the links are, in terms of cash limits, not insignificant. Settlements reached with SOA grades during the current pay round are already adding to our difficulties for this year. If, therefore, despite my best endeavours, we are unable to meet these costs from within the salaries and wages element of our Votes, and must look beyond them for assistance, I hope that the Treasury will take a sympathetic view.

We shall await further details about dealing with the problem raised by the nature of the Civil Police Settlement and its application to the Departmental Police Forces. I note your suggestion that the rent allowance might be abated but it seems likely that the Unions will question the validity of this approach; moreover a method of calculation will also be required to cover officers who do not receive a rent allowance because they occupy rent-free official accommodation.

I am copying this letter to the Prime Minister, other members of the Cabinet, the Attorney General, the Lord Advocate and Sir Robert Armstrong.

Yours ever,

George

RHR4

CONFIDENTIAL

cc JV

20

Prime Minister (4)

MCS 21/10

DEPARTMENT OF EDUCATION AND SCIENCE

ELIZABETH HOUSE, YORK ROAD, LONDON SE1 7PH

TELEPHONE 01-928 9222

FROM THE SECRETARY OF STATE

MT

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
Treasury Chambers
Parliament Street
LONDON SW1P 3AG

20 October 1982

Dear Geoffrey,

CIVIL SERVICE "SINGLE OUTSIDE ANALOGUE" GRADES

Thank you for sending me a copy of your letter of 1 October to Willie Whitelaw on the treatment of these grades in the current pay round.

While I am content, in principle, with the approach you propose, it may give rise to particular problems with a number of controlled fringe bodies, for which I have responsibility, and particularly the Research Councils. Not only do the Councils employ significant numbers of staff whose pay is set by comparison with rates outside the Civil Service (for example, agricultural workers on the staff of the Agricultural Research Council), but there are particular pension arrangements which may need to be taken into account in the critical review of certain links which you have set in hand. It is important therefore that your officials consult mine in appropriate cases and it may then be necessary to offer the Council an opportunity to comment as well.

I accept as an objective that settlements should be accommodated within existing cash limits but shall wish to keep under review the impact on the science budget.

I am sending copies of this letter to the Prime Minister, to our Cabinet colleagues, to the Attorney General, to the Lord Advocate and to Sir Robert Armstrong.

Yours,

Keith

cc JC

Prime Minister (4)

MCS 21/10

PRIME MINISTER

MEGAW AND THE TSRB

I have seen the Chancellor of the Exchequer's minute of 13 October on this subject. I agree with his conclusion that there is a continuing need for independent advice on the pay of the Higher Civil Service and that this should continue to be provided by the TSRB. I am quite sure that pay cannot be negotiated at these levels.

I also share the Chancellor's view that we need more time to consider the Megaw recommendations about the pay structure of the Higher Civil Service and that in the meantime the TSRB should be told to formulate their advice for 1983 on the existing basis.

I am sending copies of this minute to the Chancellor of the Exchequer and the other members of MISC 83, the Lord Chancellor and the Lord President.

Dear Jay

BARONESS YOUNG

19 October 1982

LSU

Prime Minister (4)

MCS 21/10

CONFIDENTIAL

QUEEN ANNE'S GATE LONDON SW1H 9AT

19 October 1982

Dear Geoffrey.

CIVIL SERVICE "SINGLE OUTSIDE ANALOGUE" GRADES

Thank you for your letter of 1 October about the treatment in this round of the pay of "single outside analogue" grades in the civil service.

I agree with your general approach. Although it will not be easy to contain the additional cost, breaking the existing links would make it impossible to attract people of the right quality.

I assume that the Departments concerned will be consulted at an early stage when your officials examine any existing links, with a view to considering whether they should be changed or abolished.

Copies of this letter go to the Prime Minister, to our other Cabinet colleagues, to the Attorney General, to the Lord Advocate and to Sir Robert Armstrong.

Yours ever

Willie

The Rt. Hon. Sir Geoffrey Howe, QC. MP.

CONFIDENTIAL

CS
Pay

CC/SV

MINISTRY OF AGRICULTURE, FISHERIES AND FOOD
WHITEHALL PLACE, LONDON SW1A 2HH

Prime Minister (2)

MCS 19/10

From the Minister

CONFIDENTIAL

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
London SW1

19 October 1982

CIVIL SERVICE "SINGLE OUTSIDE ANALOGUE" GRADES

In your letter of 1 October to Willie Whitelaw you raised the question of how we are to deal with the single outside analogue grades in the next pay round. My interest lies mainly in the departmental police at the Royal Botanic Gardens, the marine staff in the fisheries research fleet and the agricultural workers on the Ministry's experimental centres. Until a decision is taken on Megaw I would strongly support the view that we should continue to follow the outside analogue settlements.

In the past the case of our agricultural workers has given us the most difficulty when we come to decide how the analogous settlements should be applied. I wrote to you last January about the application of the Agricultural Wages Board's 10% award and explained why it should be applied in full and without delay. All the same considerations still apply. Since then we have also encountered the issue of the abatement of agricultural workers' pay to take account of the value of their pensions. This latter point has been the subject of correspondence at official level. In my view this is another area where for the time being we should maintain the status quo.

On our experimental farms about half the workers are paid at or little above the Agricultural Wages Board's minimum rates. If we were to make a deduction in respect of pension contributions most of these would receive less than the minimum and, as I explained in my letter of 13 January last, I am responsible for enforcing the Agricultural Wages Act and prosecuting any private

/farmer who pays less ...

farmer who pays less than the minimum. To make deductions from the higher paid workers but not from those paid at or little above the minimum would upset the recognised differentials for skill and responsibility; and to make any substantial deductions would at the present time undermine our ability to employ reliable, responsible workers to work on experimental programmes by paying rates that match those of good local farmers.

There is clearly a link between the pay and the pension arrangements for our agricultural workers and for this reason I would urge that, until decisions are made on Megaw and on the question of Civil Service pension contributions, no action should be taken to make adjustments to the pay of our agricultural workers on account of the value of their pensions.

I am copying this letter to the Prime Minister, other Cabinet colleagues, the Law Officers and Sir Robert Armstrong.

PETER WALKER

Civil Service Pay 11/12

DEPARTMENT OF EDUCATION AND SCIENCE

ELIZABETH HOUSE, YORK ROAD, LONDON SE1 7PH

TELEPHONE 01-928 9222

FROM THE SECRETARY OF STATE

18 October 1982

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
Treasury
Parliament Street
London SW1P 3AG

Dear Geoffrey.

LONDON WEIGHTING FOR THE CIVIL SERVICE

Thank you for sending me a copy of your minute of 13 October to the Prime Minister.

The Burnham Primary and Secondary Committee agreed on 14 October to refer the teachers' 1982 London Weighting claim to arbitration. The teachers claimed an increase based on the indices. On a tax-adjusted basis this amounts to a claim of 14.1%. On an unadjusted basis the claim is around 18%. The teachers made it clear that while they preferred 18% they were ready to consider offers at 14.1%, but that they were not ready to negotiate a settlement other than on a cost-compensation basis.

The management panel made an offer of 9%, followed by a further offer of 10% when the 9% was rejected. The 10% offer was similarly rejected. Rather than raise the base for arbitration any further, or move nearer to appearing to concede the cost-compensation principle, the employers then proposed arbitration which the teachers accepted.

The teachers' 1981 London Weighting claim was settled by arbitration as recently as May. The award yielded increases closely in line with the tax-adjusted indices. While the management panel will argue against a similar award for 1982 there must be a considerable risk that the arbitrators will recommend something close to 14%. A negotiated settlement with the Civil Service unions at 12%, announced before the teachers' arbitration hearing, would therefore be helpful in the Burnham context. From this Department's standpoint I would therefore prefer this to a reference to arbitration. But that consideration, and the industrial relations point made in paragraph 5c of your minute, will have to be weighed against the likely impact of the alternative courses of action on the NHS pay negotiations. I should be happy to take part in any meeting that may be thought useful.

Copies of this letter go to the recipients of your minute.

Yours ever

SECRET

Civil Service, Pay, Pt 12

Prime Minister (1) 3

Please see the Chancellor's minute.

Await Sir K Joseph's and Mr Fowler's views?

MCS 15/10

MR SCHOLAR

cc Mr Mount

London Weighting for the Civil Service

The Chancellor says he is "tempted" to try and settle for 12%, rather than go to arbitration. But I am sure he is right to ask for the views of Mr Fowler and Sir Keith Joseph first: this may well be a case where, because of the knock-on effects, we should risk a slightly higher settlement for the sake of reaching it later. And with figures of this magnitude there is a lot to be said for not settling voluntarily and letting them emerge from arbitration.

NO

15 October 1982

CONFIDENTIAL

Prime Minister
John Vickers has produced this for tomorrow's 'tutorial' on Megaw. M. Buckley works with P. Gregson in the Cab Office and is knowledgeable about Megaw and Civil Service pay.
MCS 14/10

PRIME MINISTER

MEGAW

For your discussion with Peter Le Cheminant, Michael Buckley and myself tomorrow, you may find it helpful to have this note of the main areas I think we should cover. I am assuming that you do not want to reach conclusions at this meeting, but merely to clear your own mind about the issues in preparation for the meeting you will be having with your colleagues. The Chancellor is having a similar preparatory meeting next Tuesday, to which I have been invited.

1. The Lower Limit of the Interquartile Range

The objectionable feature is that the Government would be absolutely committed to an externally determined minimum, based on a comparability study. Is an agreed system possible without such a commitment? How often will the Government want to pay below the lower quartile? How often will that be justified on grounds of market factors?

Would a provision for suspending the system in exceptional circumstances make the commitment to the lower limit less objectionable?

2. The Four-Yearly Review

The objectionable feature is that the four-yearly production of recommended levels of pay could generate catching up pressure throughout the public services. How serious is this danger? Is it limited by the provision for spreading any adjustment over future years? Can union pressure for more frequent reviews be resisted?

3. The Arbitration Arrangements

Megaw recommends access by agreement to binding arbitration. Will it be difficult to refuse access when disputes arise? Is the likely area of dispute under the Megaw system large enough to make it likely that arbitration matters?

CONFIDENTIAL

4. Implications for other Public Services

If the Government offers Megaw to the Civil Service, does it follow inevitably that similar arrangements will be offered to other public services (especially the NHS)? Would Megaw-type systems throughout the public services be compatible with affordability and market forces criteria? Would the result be generally seen as a relaxation in the Government's approach to pay?

5. Alternatives to Megaw

Officials have identified viable alternatives to a Megaw-type system: free collective bargaining; bargaining with an external source of non-binding information; and a review body, or something similar, to take civil service pay wholly out of the arena of negotiations. The third is clearly unacceptable; but are the other two similar to the procedure of the last two years, and could they be continued indefinitely? What are the risks of disruption if they are?

6. The Tactical Handling of the Unions

If Ministers decide that they are not keen on a Megaw-type system, there are difficult tactical issues, which are complicated by the union conferences in December which may themselves lead to the unions rejecting Megaw. Is it common ground that the Government, having set up Megaw in the aftermath of ending the old Pay Agreement, cannot now simply reject it? Could the Government contemplate starting negotiations with the unions in bad faith, ie intending to find an excuse to break off? Would it be best to agree to negotiate seriously (which would involve saying that, given an eventual agreement, we were prepared to pay at least the lower limit) but not to try to persuade the unions to accept Megaw? We would thus be happy to break off if the unions gave us a good reason.

7. Possible Intermediate Positions

You may want to look to see if there is acceptable ground between you and the Chancellor, which might form the basis of a compromise position. The Megaw system could be made more acceptable

to us in a number of ways. It might, for instance, be better without the four-yearly review- but that is not saleable to the unions, as it would certainly be regarded by them as equivalent to abandoning Megaw. It might be possible to negotiate a widening of the interquartile range, perhaps to the 20th-80th percentiles - but that does not address the difficulties of principle.

To my mind, much the most objectionable feature of Megaw is that the upper and lower limits are set without regard to market factors. Would it be possible to charge the proposed Pay Information Board with responsibility for taking market factors into account in setting the limits, on the basis of quantified recruitment and retention data? Would that be negotiable with the unions? Even though it would mean giving even more responsibility to an outside body, would that make it easier for the Government to accept the Megaw system?

JOHN VEREKER
14 October 1982

CONFIDENTIAL

c/c SV

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

Secretary of State for Industry

13 October 1982

The Rt Hon Geoffrey Howe QC MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
London SW1P 3AG

Prime Minister (4)

MCS 14/10

Dear Geoffrey,

CIVIL SERVICE: "SINGLE OUTSIDE ANALOGUE" GRADES

Thank you for copying to me your letter of 1 October to Willie Whitelaw on this subject. I confirm that I am content with the general approach outlined in your letter and that I am prepared to accommodate any costs of resulting settlements within existing cash limits.

I am copying this letter to the recipients of yours.

Yours

Patrick

Civil Service

Pay & Pensions

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

PRIME MINISTER

LONDON WEIGHTING FOR THE CIVIL SERVICE

You will recall our earlier decision (your Private Secretary's letter to mine of 23 July) that officials should be authorised to seek a negotiated settlement of the Civil Service London Weighting claim at "up to 9 per cent" and that, if a negotiated settlement did not prove possible, the matter should then be referred to arbitration.

2. You will also recall that the Unions' claim was for an average increase of 22 per cent in the London Weighting allowances including the 5 per cent or so we withheld last year. This figure is based on the indices of the relative extra cost of living in London published by the Department of Employment and used by many employers as the basis for their own London allowances (indices which we are, of course, about to discontinue).

3. Negotiations by my officials have now reached the point where the Civil Service Unions have offered privately to settle at an overall increase of 14½ per cent in the London Weighting figures. They have indicated, even more privately, that they might be prepared to accept a counter-offer at 12 per cent. The judgement of officials is that this is the best we can hope to achieve in negotiation and I agree with them (a 12 per cent settlement would meet little more than half of the Unions' claim; is at the limit of what they could defend to their members as a negotiated settlement; and must be well in the area of the award they could reasonably hope to achieve at arbitration - though of course they might do better or worse).

4. As part of the settlement the Unions would wish to have assurances from us on the general lines that the 1982 settlement would not be quoted as a precedent for future years; had been reached entirely without prejudice to the position of either side in any future London Weighting negotiations; and would not be quoted by the Official Side as evidence that the CCSU has accepted any

or all of the arguments put forward by the Official Side in the course of the present negotiations. A precise text would need to be negotiated but I do not see any difficulty in giving assurances on these lines. The Unions would also expect a low key announcement of the settlement with no attempt to justify the agreed figures by arithmetical calculations. For their part they would be likely to present the settlement as being, in their judgement, the best that could be achieved in the circumstances.

5. The issue for us to decide therefore is whether to indicate to the Civil Service Union leadership that a settlement at 12 per cent is acceptable to us or to set the arbitration processes in train. The cost of going to 12 per cent, as opposed to the 9 per cent we have already authorised, is minimal (about £3 million a year) and our judgement has to be made on wider considerations. Among these are:-

a. The impact on the NHS pay negotiations of what might be represented as a Government concession of 12 per cent.

b. The impact on the parallel negotiations on London Weighting for teachers and, eventually, the NHS where a Civil Service settlement well below the indices would no doubt help to obtain moderate outcomes.

c. The impact on our industrial relations in the Civil Service where evidence given to the Arbitration Tribunal might be bruising whereas a negotiated settlement might show that both we and the Civil Service Unions were capable of doing serious business together.

6. Were we to be free to consider this question in isolation I would be tempted to try and reach agreement at 12 per cent with the Civil Service Unions. But I am conscious that NHS considerations may well point to arbitration for the Civil Service - the results of which would not emerge for 6 weeks or so. In order to come to a final decision it would be most helpful to have the views of colleagues, and particularly those of Keith Joseph and Norman Fowler whose special interests are directly involved. If it would help I am very willing to call a quick and early meeting of E(PSP) at which we can review the position.

7. Copies of this minute go to the Secretary of State for Education and Science, the Secretary of State for Defence, the Secretary of State for Social Services, the Secretary of State for Employment, the Lord Privy Seal, and Sir Robert Armstrong. All will, I know, recognise and respect the sensitivity of the information contained in this minute.

(G.H.)
13 October 1982

Civil Service, Pay, Pt 12

PRIME MINISTER

cc Mr Mount

THE MEGAW REPORT

no res

You and the Chancellor have agreed to have a word tomorrow night about whether or not we should go for a Megaw-type pay system for the Civil Service. The Treasury is generally in favour of it, and I would judge it likely that the Chancellor's Committee - MISC 83 - will endorse it at its meeting on 21 October, unless you and he agree otherwise beforehand.

You may want to tell the Chancellor that you have serious doubts about these two fundamental features of what Megaw proposes:

(i) The fixing of a lower limit for each year's pay settlement. this would be done independently of Government; it would be determined by comparability; and it would be absolutely binding, with no possibility of override. The Government's criteria of affordability and market factors come into play only in deciding where between the lower and upper limits the settlement will lie.

(ii) The four yearly "total remuneration survey", which would display publicly any accumulated divergence from comparable private sector pay levels, and require the Government to make an appropriate adjustment over time. We think this is even more objectionable than the arrangement for the annual settlement, because it would generate wide expectation of Clegg-type catching up settlements.

The Chancellor will be briefed to argue that the Megaw system is workable, and that as long as inflation is kept under control the scope for disputes is limited. Ministers have said they want an "ordered and agreed" system, and this is the best one available. These arguments deserve to be taken seriously, particularly if it is thought desirable to minimise the chances of industrial action. But we think that the price of that orderly system is too

high: it means the abandonment of our effort to keep civil service pay within the limits of what Ministers decide can be afforded, and of the principle that pay should be determined by the market for labour. And it would rapidly spread - Mr Fowler is already proposing, in a paper for the Ministerial Committee on Public Service Pay, a Megaw-type system for the nurses.

I know that the Chancellor with have other, and pressing, matters to raise with you tomorrow. So if, following the discussion, your doubts about Megaw remain, it may be best to ask Michael Scholar to arrange a further meeting - perhaps with one or two officials, such as Peter Le Cheminant, present - to agree the line for the Chancellor to take in MISC 83. This is a very important decision indeed for the handling of public service pay, and there are also difficult tactical issues in handling the unions.

12 October 1982

CONFIDENTIAL

cc Civil Service

Prime Minister (2)

MCS 8/10

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

The Rt Hon William Whitelaw CH, MC, MP
Home Office
50 Queen Anne's Gate
London SW1

1 October 1982

Dear Willie

MT

CIVIL SERVICE "SINGLE OUTSIDE ANALOGUE" GRADES

We need to decide fairly soon how we intend to treat in this round the pay of "single outside analogue" (SOA) grades in the Civil Service. There are about 20,000 civil servants in these grades whose pay has in the past been directly linked to specific outside pay rates. The most important groups are the departmental Police, the marine grades, nurses, teachers, firemen, agricultural workers and printers.

2. You will recall that we agreed that these links should operate in the last pay round. We had doubts then as to whether we could continue to square the maintenance of these links with the Government's general posture on pay comparisons. Since then, the Megaw Committee has recommended that the single outside analogue grades should not continue in their present form but be merged with the rest of the non-industrial Civil Service grades into a new pay structure.

3. There are, therefore, strong arguments in principle for breaking the single outside analogue links. There are, however, strong practical arguments against doing so in the present pay round. We have still to take a view on Megaw and how the recommendations might be implemented. Implementation in any event is unlikely before 1 April 1984. All the difficulties we have identified before (legal, presentational and industrial relations) remain. The cost of continuing with the links is very small - about 0.04% of the Civil Service pay bill. Allowing these links to operate in the past has not caused any problems, or given rise to claims for similar treatment from other groups of civil servants who have done less well.

4. All this suggests that we should continue single outside analogue arrangements generally until we have a better idea of what form any new pay system might take and how the single outside analogue grades would fit into it. I have, however, doubts about some individual links. In particular, some of them do not take proper account of differences in pensions and others may,

on examination, prove to be dispensable. I have asked my officials to look at all these pay links critically and to suggest change or abolition where the facts warrant such action.

5. The first group of civil servants who would expect to settle in this pay round are the departmental Police. There are no doubts about the level of the link, or its continuing relevance, as it was established as recently as 1980 following the recommendations of the Wright Committee which we endorsed. There is, however, an immediate problem in that the 10.3% increase in pensionable pay given to the civil Police is only worth 5.6% to them as net pay because of increased pensions contributions. The departmental Police are in the Civil Service Pension Scheme, which, at the moment, is non-contributory. Officials should be able to get round this difficulty by abating the rent allowance of the departmental Police (which is a non-pensionable, non-reckonable emolument) in such a way that the agreed level of link with pensionable pay of the civil Police would be maintained,while reducing the net value of the pay settlement to not more than the 5.6% of the civil Police.

6. If colleagues are content with this general approach, I should be grateful for confirmation that they are prepared to accommodatethe cost of the resulting settlements within their existing cash limits.

7. I am copyingthis letter to the Prime Minister, to our other Cabinet colleagues, to the Attorney General, to the Lord Advocate and to Sir Robert Armstrong.

GEOFFREY HOWE

CONFIDENTIAL

CIVIL SERVICE

cc

Prime Minister (2)

To note.

MCS 4/10

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

PRIME MINISTER

LONDON WEIGHTING INDICES

At its meeting on 30 September the Ministerial Sub-Committee on Public Service Pay considered whether the Government should continue to publish the London Weighting index. (E(PSP)(82) 4th Meeting).

2. The present index was devised by the Pay Board in 1974 and has been updated annually since then according to the formula they recommended. The index is widely used in the public sector, although in 1981 the Civil Service and some other public service groups received increases in London Weighting lower than those indicated by the index. In the private sector, practice is more varied, although the index is often taken into account and in some sectors, notably banking and finance, followed closely.

3. The Sub-Committee agreed that continued publication of the index was contrary to the Government's view that pay should be determined by market considerations rather than past movements in prices. They therefore approved a proposal by the Secretary of State for Employment that a decision to cease publishing the index should be announced in answer to a written Parliamentary Question soon after Parliament re-assembles on 18 October.

I am sending a copy of this minute to the members of E(PSP) and to Sir Robert Armstrong and Mr Sparrow.

(G.H.)
1 October 1982

Civil Service, Pay, PAR

mrs to see or. WM 15/8

CONFIDENTIAL

MANAGEMENT IN CONFIDENCE

cc Civil Service

Treasury Chambers, Parliament Street, SW1P 3AG

Michael Scholar Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

13 August 1982

Dear Michael

LONDON WEIGHTING

Your letter of 23 July to Peter Jenkins conveyed the Prime Minister's agreement to the proposals on London Weighting put to her, following discussion in E(PSP), by the Chancellor in his minute of 22 July.

This letter is to let you and copy recipients know that - subject to some uncertainty on the Union side - the negotiations on London Weighting with the Civil Service unions are likely to begin within the next fortnight. If an agreement can be reached in these negotiations this is likely to become apparent by early September. If in the event we have recourse to arbitration the result is likely to be available in October. I have been asked to stress the importance of keeping secret the line which colleagues have agreed on the availability of Arbitration. If this were known prematurely the chances of achieving a negotiated settlement would be much reduced. In line with the assumptions set out in E(PSP)(82)14, and not disputed by colleagues at E(PSP) on 21 July, the Chancellor will be expecting the majority of departments (ie. all except a very few small departments wholly based in London) to absorb the increases in London Weighting within existing cash limits.

I am copying this letter to the recipients of yours.

Yours sincerely

J.A. Gieve

JOHN GIEVE
Private Secretary

CONFIDENTIAL

MANAGEMENT IN CONFIDENCE

Civil Service SW

10 DOWNING STREET

From the Private Secretary

5 August, 1982

MANAGEMENT IN CONFIDENCE

MEGAW REPORT: NEXT STEPS

The Prime Minister has seen the Chancellor's recent minute, in which he reports on the preliminary discussions in MISC 83.

Mrs. Thatcher notes that it was the unanimous view in MISC 83 that it would be preferable to have a pay system, provided that it met the Government's essential requirements, and that the Megaw recommendations offered a basis for attempting to negotiate such a system. She has commented that the proviso that any pay system should meet our "essential requirements" is very important, and that no commitment to negotiate on the basis of the Megaw recommendations should be made in the exploratory discussions at official level with the unions, or elsewhere, until we are clearer that this proviso can largely be met. In particular, the Prime Minister feels that no such commitment should be made until we are better placed to assess whether such a pay system would produce pay increases over the next few years consistent with the Government's objective of increasing competitiveness and therefore employment, and whether in particular it would be likely to produce a pay increase in the coming pay round consistent with the Chancellor's own objective of substantially lower settlements this year than last.

I am copying this letter to the Private Secretaries to members of the Cabinet, the Minister of State, Treasury (Mr. Hayhoe), Mr. Sparrow and Sir Robert Armstrong.

W. F. S. RICKETT

Peter Jenkins, Esq.,
H.M. Treasury

CONFIDENTIAL AND PERSONAL
MANAGEMENT IN CONFIDENCE

cc JV

Prime Minister 2

You saw the minutes of the last meeting of the Ministerial Group on the Megaw Report, so you will be aware of most of this report on its work.

LR 3/8

PRIME MINISTER

MEGAW REPORT : NEXT STEPS

We had a preliminary discussion in the Ministerial Group on the Megaw Report on 27 July (MISC 83(82) 1st Meeting). We do not need to take firm decisions on the Megaw recommendations until September, when officials have had the opportunity to analyse in detail how the proposed new pay arrangements might work in practice and when we have more information about the attitudes of the Civil Service unions. We nevertheless thought it desirable to reach some provisional conclusions, as a basis for further work and for initial contacts with the unions.

2. It seemed to us that the basic choice facing the Government was whether to try and negotiate a new pay system broadly on the basis of the Megaw recommendations, or to have no system and rely instead on free collective bargaining. Our unanimous view in MISC 83 was that it would be preferable to have a pay system, provided that it met the Government's essential requirements, and that the Megaw recommendations, which closely reflected the Government's evidence to the Inquiry, offered a broadly satisfactory basis for attempting to negotiate such a system.

3. We concluded that it would be desirable to have exploratory discussions at official level with the Civil Service unions as soon as possible, without commitment on either side. This should give us a clearer view of union attitudes, as a basis for decisions in September. The immediate public union reaction has been hostile. Moreover the Executive Committee of the two largest unions, the Civil and Public Services Association and the Society of Civil andPublic Servants, now dominated by militants, may well prefer to exploit the opportunities of confrontation afforded by free collective bargaining. Exploratory talks may enable the moderate General Secretaries to make some progress before the special conferences which several unions will be having later in the year.

4. In order to enable us to take decisions in September on all the main recommendations in the Megaw Report, the Official Group (MISC 84) will be carrying through a work programme which we have approved. It seems unlikely that we could have a new system fully in place in time for the 1983 negotiations. We felt however that there would be advantage in having at least some elements in place in 1983 and officials have been asked to identify as soon as possible what these might be.

5. Finally we discussed briefly the interaction between the Government's consideration of the Megaw recommendations, and the discussions which have been taking place about a pay system for nurses as well as the proposal, which the Secretary of State for Social Services recently put forward, that there might be discussions about a pay system for the generality of National Health Service employees. We agreed in MISC 83 that the Government should not become more firmly committed to the introduction of pay systems in the NHS or embark on discussions about such arrangements with the NHS unions until detailed proposals and their implications had been examined by Ministers in the light of whatever proposals the Government decides to put forward in due course for the Civil Service. Meanwhile officials are being asked to consider, as a matter or urgency, the implications of the Megaw recommendations in the public services generally.

6. I am sending copies of this minute to other Members of the Cabinet, the Minister of State, Treasury (Mr Hayhoe), Mr Sparrow and Sir Robert Armstrong.

GEOFFREY HOWE

3.8.82 (?)

CONFIDENTIAL

3 August 1982

Mr RICKETT

cc Mr Mount (o/r)

MEGAW REPORT

The Prime Minister already knows, from my note of 29 July about her meeting with the Chancellor this evening, of our reservations about the Chancellor's willingness to endorse the Megaw report at this stage, as now indicated in his note to the Prime Minister today.

I hope she will pass on these reservations to the Chancellor tonight, but even if she does so, it is important that she also reply (or ask you to do so on her behalf) to the Chancellor's note, because it has been copied to all members of Cabinet.

At present, I think she needs to respond only to the Chancellor's report of the unanimous view of MISC 83 that the Government should try and negotiate a new pay system broadly on the basis of the Megaw recommendations. It would be reasonable to indicate that she does not think it desirable to reach that judgment until we are better-placed to assess whether such a system would produce pay increases over the next few years consistent with the Government's objective of increasing competitiveness and therefore employment; and whether in particular it would be likely to produce a pay increase in the coming pay round consistent with the Chancellor's own objective of substantially lower settlements this year than last.

JV.

JOHN VEREKER

Prime Minister

MISC 83 agreed that it would be preferable to have a pay system, provided it met our essential requirements. Would you like me to tell the Chancellor's office that we should not go too far down this road until we are clearer that this proviso can be met, and to ~~out~~ set out some of our "essential requirements" as described by John Vereker above.

Yes please

CONFIDENTIAL

MT 3/8

cc JV

10 DOWNING STREET

From the Private Secretary

23 July 1982

Dear Peter,

LONDON WEIGHTING

The Prime Minister is content with the approach set out in paragraph 6 of the Chancellor's minute to her of 22 July: that we should make an opening offer of some 6%, that if an opportunity arises of an early negotiated settlement at no more than 9% the Government should take it; but that, failing this, the Government should be prepared to allow London Weighting for the non-industrial Civil Service to go to arbitration.

I am sending copies of this letter to John Halliday (Home Office), Imogen Wilde (DES), David Omand (Ministry of Defence), David Edmonds (DOE), David Clark (DHSS), Barnaby Shaw (Department of Employment), David Heyhoe (Lord President's Office), Terry Mathews (Chief Secretary's Office, HM Treasury), Jim Buckley (Lord Privy Seal's Office), Gerry Spence (CPRS) and David Wright (Cabinet Office).

Yours sincerely,

Michael Scholar

Peter Jenkins, Esq.,
H.M. Treasury.

CONFIDENTIAL AND MANAGEMENT IN CONFIDENCE

Prime Minister (1)

Agree a 6% offer on London weighting, with discretion to rise to 9% – or, if this is not accepted, to go to arbitration?

Yes

Yes

FCS 22/7

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

PRIME MINISTER

LONDON WEIGHTING

attached. — The Ministerial Sub-Committee on Public Service Pay discussed on 21 July the question of London Weighting allowances in the 1982 round of public service pay negotiations (E(PSP)(82) 3rd Meeting). As you know, the Department of Employment published on 24 June its annual London Weighting indices showing increases in the year to April of 16.7 per cent for inner London and 12.8 per cent for outer London.

2. We concluded that, notwithstanding a passing reference in the Megaw Report which would be seen by the unions as implicit endorsement of cost compensation in line with the indices, the Government's general approach in the 1982 round should be based on the following main considerations:

a. the need for employers to be able to recruit, retain and motivate staff;

b. the need to avoid reinforcing the assumption that London Weighting should be based on cost compensation (and particularly to resist catching up claims in respect

of the Civil Service and National Health Service who did not receive full cost compensation last year); and

c. the need to stay within cash limits.

3. In accordance with these considerations, the aim should be to achieve the lowest practicable settlement for each group. Although no formal review of London Weighting allowances would be announced at this stage, it would be made clear, as necessary, in particular negotiations that the Government regarded the question of London Weighting allowances inthe future as being inevitably a matter for further consideration in the light of the Megaw Report's general recommendations that pay should be adequate to recruit, retain and motivate staff.

4. We also agreed it would probably be desirable to discontinue publication of the Department of Employment's London Weighting indices which influence London Weighting settlements widely in the private as well as the public sectors. The Secretary of State for Employment will however be putting forward proposals about this later in the year, bearing in mind the undesirability of complicating decisions on the Megaw recommendations.

5. We discussed the handling of the negotiations with the various public service groups and paid particular attention to those with the non-industrial Civil Service where, because of the timing and the Government's direct involvement, there may be repercussions for the negotiations with other groups. The Civil Service unions have claimed increases in line with the indices, together with a "catching up" increase in respect of 1981.

6. We agreed that the right approach would be to make an opening offer in line with the average increase in Civil Service pay in the 1982 pay settlement, i.e. of some 6 per cent. If an opportunity arose of an early negotiated settlement at no more than 9 per cent, the Government should take it. Failing this however the Government should be prepared to allow London Weighting for the non-industrial Civil Service to go to arbitration as did the main 1982 pay increase. We felt that, in the particular circumstances applying to this group this year, a settlement arising from arbitration might well be no higher than any settlement which could be otherwise achieved, and that the adverse impact on other negotiations would be less if the final figure emerged from arbitration rather than being proffered by the Government.

7. I am sending copies of this minute to the Home Secretary, the Secretaries of State for Education and Science, Defence, the Environment, Social Services, and Employment, the Lord President of the Council, the Chief Secretary, Treasury, the Lord Privy Seal, Mr Sparrow and Sir Robert Armstrong.

(G.H.)

22 July 1982

Civil Service

MR. MOUNT

N Scholar

Since the Chancellor has already written, you may want to have these first reactions (I'll have not yet seen)

cc Mr. Walters

London Weighting

V. 22/7

I think you will wish to see the attached minutes of yesterday's meeting of E(PSP). Ministers appear to have gone surprisingly soft on London Weighting. The conclusion, to allow arbitration unless a settlement at not more than 9% can be negotiated for the Civil Service, is to my mind a little surprising. I am told that both Mr. Tebbit and the Chancellor were keen on arbitration. But the arbitrator would have few grounds for not awarding the full union claim, which is likely to be around 22%: market factors do justify some substantial increase - the clearing banks, for instance, had 15% - the indices are clear, and the Government could easily afford the small amount of money involved.

Unless you feel strongly, however, I doubt if this is worth an intervention from us (the Chancellor will be reporting the outcome to the Prime Minister): it is unlikely that we could reverse the decision, and although I am always uneasy about permitting access to arbitration, there are no major principles at stake here.

22 July 1982

1. copy
2 mor.

Civil Service

TNL
13/7

CABINET OFFICE

Central Policy Review Staff

70 Whitehall, London SW1A 2AS Telephone 01-233 7765

From: John Sparrow

Qa 05979
CONFIDENTIAL
MANAGEMENT-IN-CONFIDENCE

12 July 1982

Dear David,

Official Group on the Megaw Report
MISC 84

Mr Sparrow has seen a copy of Sir Robert Armstrong's letter of 8 July, and would like to nominate Chris Beauman to represent the CPRS on the above Group.

I am sending copies of this letter to the Private Secretaries to the other recipients of Sir Robert's letter.

Yours ever
George Spence

G B Spence

D J Wright Esq
CABINET OFFICE
S W 1

CONFIDENTIAL
MANAGEMENT-IN-CONFIDENCE

cc JV
Econ Pol

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

9 July 1982

J F Halliday Esq
Principle Private Secretary to the Home Secretary
Home Office
50 Queen Anne's Gate
LONDON
SW1H 9AT

Dear John,

NHS DISPUTE: SYMPATHETIC ACTION BY CIVIL SERVANTS

Following the decisions on this subject in Cabinet yesterday and MISC 80 this afternoon, I am enclosing for your Minister's information the text of the warning letter which will go to those civil servants who were absent without authority on 23 June in the DHSS, Department of Employment, Departments of the Environment and Transport, Customs & Excise and Scottish Office (including the REgisters of Scotland). I am also enclosing a basic text from which all Departments will instruct managers to record and report the names of those who are absent without authority or fail to work normally in support of a dispute outside the civil service, or who appear to have committed a breach of the rules of conduct: the precise text and distribution of this instruction will be for each department to decide.

The action of these documents will be initiated by separate instructions to Establishment Officers, and they will also have supplementary material that may be necessary for briefing.

Copies of this letter and enclosure go to the Private Secretaries of State for the Environment, Scotland, Transport and Social Services, the Lord Privy Seal, the Secretary of State for Employment, the Chancellor of the Duchy of Lancaster and Paymaster General, the Attorney General, the Lord Advocate and for information to the Private Secretaries to the Prime Minister and to the Secretary to the Cabinet.

Yours ever
Peter

P S JENKINS

TERMS OF A LETTER TO BE SENT TO THOSE CIVIL SERVANTS WHO WERE ABSENT WITHOUT PERMISSION ON 23 JUNE IN CONNECTION WITH THE DISPUTE ABOUT PAY IN THE NATIONAL HEALTH SERVICE

I understand that you were absent from work without permission on Wednesday 23 June in connection with the dispute about pay in the National Health Service. As is normal practice in cases of unauthorised absence your pay has been stopped as a result.

2. The taking of industrial action in furtherance of a dispute over the terms and conditions of service of civil servants is not normally the subject of disciplinary action. It should be clearly understood that this policy does not apply in relation to disputes outside the Home Civil Service and Diplomatic Service. I am therefore writing to make it clear to you that if, in connection with disputes which are not about civil service conditions of employment, you commit a disciplinary offence (for instance, unauthorised absence or refusal to comply with a legitimate instruction), you will be liable to disciplinary proceedings which may result in one of the range of penalties set out in [departments to insert reference to appropriate staff rules]. I am giving you this warning to avoid any doubt about the possible consequences of your taking such action in the future.

INSTRUCTIONS TO BE SENT TO CIVIL SERVICE MANAGERS

There may be some sympathetic industrial action on 19 - 21 July in support of the dispute about pay in the NHS.

It is not known what Trade Unions will participate and whether there will be Civil Service industrial action in support of this dispute. During the NHS 1-day strike on 23 June there were limited unauthorised absences of civil servants in some Departments, and some minor picketing of Government Offices by their staff.

The seriousness of taking industrial action in relation to disputes outside the Home Civil Service and Diplomatic Service will be well understood by the majority of civil servants. Hitherto unauthorised absence for industrial action has normally been dealt with simply by stoppage of pay but it has now been agreed that if it occurs in furtherance of a dispute outside the Civil Service staff will in future also be liable to disciplinary proceedings, particularly if overtly political or abusive action is involved. The staff who took sympathetic industrial action on 23 June have been given an individual written warning to this effect. If you have reason to suppose that any of your staff are thinking of taking industrial action on 19 - 21 July you should make clear to them the likely consequences of what would be a breach of the rules governing their conduct.

If staff do take such action this may give rise to issues on which central advice and legal guidance will be needed. Accordingly managers are required to record and report to [Departments to insert as appropriate] as soon as possible for the necessary action

(a) the names of all staff who are absent without authority or fail to work normally in support of a dispute outside the Civil Service;

(b) the names of all staff who appear to have committed breaches of the rules of conduct, including overtly political or abusive action in such circumstances, specifying the conduct in question.

CONFIDENTIAL AND MANAGEMENT IN CONFIDENCE

DEPARTMENT OF HEALTH & SOCIAL SECURITY
Alexander Fleming House, Elephant & Castle, London SE1 6BY
Telephone 01-407 5522 ext 6981
From the Permanent Secretary
Sir Kenneth Stowe KCB CVO

Sir Robert Armstrong, KCB, CVO,
Cabinet Office,
Whitehall,
London SW1

9 July, 1982

Dear Robert,

OFFICIAL GROUP ON THE MEGAW REPORT: MISC 84

Thank you for your letter of 8 July.

We would like to nominate Mr.Michael Partridge to be the DHSS representative on the Ministerial Group on the Megaw Report.

I am sending a copy of this letter to the recipients of yours.

Yours ever

Ken

Civil Service

Prime Minister (2)

9 July 1982

Policy Unit

PRIME MINISTER

MCS 9/7

THE MEGAW REPORT

We have now studied this Report, and you may find it helpful to have our reactions to it. In general, we do not think it is a particularly good Report; it is not as helpful to the Government as the press has made out, and it will not be at all easy - perhaps not even desirable - to construct an orderly and agreed Civil Service pay determination system upon it.

There are parts of the Report which, because they endorse our general approach to public service pay, can be used to our advantage; and the adverse reaction of the unions may make it easier for us to avoid the pitfalls. Above all, we want to write up in letters of gold the fact that the first major enquiry into Civil Service pay in 25 years has recommended that:

> ". . . the governing principle for the Civil Service pay system in the future should be to ensure that the Government as an employer pays civil servants enough, taking one year with another, to recruit, retain and motivate them to perform efficiently the duties required of them at an appropriate level of competence." (Paragraph 91)

Our overall public service pay policy is endorsed in three important respects: the replacement of comparability by market factors (paragraphs 78 and 91); the need to relate pay to performance and to develop the management skills to do so (paragraphs 329 and 351); and the desirability of removing the right of unilateral access to arbitration (paragraph 270). The Report is also helpful in stressing that job security ought to be taken into account and that civil servants' pension contributions should cover the whole of the employees' share of pension costs.

But there is a central flaw: the failure to carry the principle of market factors through into a workable, non-comparability-based method of pay determination. The proposed Pay Information Board (PIB), replacing the old Pay Research Unit, would certainly operate in some respects in an improved fashion - by using outside consultants, eliminating public sector analogues, and including small firms which generally pay less. But its product would be two iron limits (the

"interquartile range"), based solely on comparability, not themselves subject to negotiation, within which negotiations would take place. Megaw justifies this in a revealing passage - paragraphs 101 and 102 - which seem to say that market factors and comparability would produce the same result anyway, which is nonsense. Fair comparison is constantly creeping back in.

So the main principles which the Government is seeking to incorporate become relegated to the status of factors to be "taken into account" in deciding where, within the interquartile range, the settlement will lie. By paragraph 208, all these factors have become merely "an aid to discussions within the framework of collective bargaining". There is no provision for trying to establish them exogenously, or to incorporate them into the judgment of what is to constitute the interquartile range. And this failure is compounded by two further weaknesses: the provision for the PIB to use percentage pay increases rather than pay levels in its comparisons (this is bound to focus attention more sharply on comparability than on market factors);and the provision for a four-yearly review of pay levels, which will provide the opportunity for catching up.

Whether all this can work depends largely on whether the interquartile range is likely to be wide enough to allow genuine negotiation on the basis of recruitment and retention factors. Officials need to study past experience to discover the answer. Even if the range is reasonably wide - Megaw instances a range of 4-8% - there is still a danger that, in the actual negotiations, we would argue strongly for the bottom figure, and the unions would, equally strongly, insist on the top figure, with no agreed basis for the argument; and that every four years there would be a gigantic catching-up exercise. There is therefore a risk that Megaw would turn out to have recommended three years of Priestley followed by a fourth year of Clegg. Indeed, in paragraphs 368-370, in their response to the minority report, the majority are virtually reassuring Mr Chalmers that their recommendations would not fundamentally alter the Priestley system.

Nor is the Report any more helpful over affordability. As elsewhere, the difficulties which were exposed in the Government's evidence, and which the Inquiry team was invited to resolve, are simply repeated with the conclusion that they should be "taken into account". But even the little the Inquiry does say is unsatisfactory. The

Government evidence made it clear that any new arrangements should have adequate regard to the Government's duty to control public expenditure, and manage the economy in the interests of the population as a whole; the Inquiry's response (paragraphs 217 and 218) is that the Government should build realistic assumptions into its cash limits, but avoid making them explicit - in other words, the Government should react to and accommodate current pay trends, and it should not attempt to impose pay rates which are no higher than what can be afforded.

So we doubt if the Megaw recommendations offer a satisfactory basis for a system to replace Priestley. Officials should certainly study them in good faith to see to what extent they can be made to work, consistent with our policy; and there may well be tactical advantage in letting the unions make the running in criticism of the Report. There is something to be said for having a Pay Information Board as an advisory research bureau - better still if it is to research into recruitment and retention rates inside the Civil Service as well as on pay outside the Civil Service. If the PIB's findings in both areas were agreed as a statistical basis, that might well provide a helpful background for negotiations.

But we think the Report raises a major question which the Inquiry team has not addressed at all: whether we do in fact wish to have a new Pay Agreement. Our evidence made much of the desire for "ordered and agreed arrangements", but we have not done too badly this year without them. It is perfectly feasible to envisage a pay determination system in which the only structure is that the union puts in a claim, and the Government makes an offer, and both sides then bargain. Each side would be free to use whatever evidence it wanted, and the only agreement that would be needed would be on the resolution of disputes, where the Megaw arbitration proposals could be incorporated. That may turn out to be a more attractive option than trying to force the Megaw Report into a shape that is mutually acceptable to us and to the unions.

I am sending a copy of this note to the Chancellor of the Exchequer and to Sir Robert Armstrong.

FM

FERDINAND MOUNT

Civil Service

file AH

10 DOWNING STREET

From the Principal Private Secretary

CONFIDENTIAL
MANAGEMENT IN CONFIDENCE

SIR ROBERT ARMSTRONG

OFFICIAL GROUP ON THE MEGAW REPORT : MISC 84

Thank you for sending me a copy of your letter of 8 July 1982 to Sir Douglas Wass about MISC 84.

I should like Mr Vereker to represent the No 10 Policy Unit on the Group.

AWL

9 July 1982

AH

CABINET OFFICE

With the compliments of

Sir Robert Armstrong KCB, CVO

Secretary of the Cabinet

70 Whitehall, London SW1A 2AS
Telephone: 01-233 8319

Mr Whitmore

Mr Vereker

You, no doubt?

CABINET OFFICE

70 Whitehall, London SW1A 2AS Telephone 01-233 8319

From the Secretary of the Cabinet: Sir Robert Armstrong KCB, CVO

Ref. A08924

8th July 1982

Mr Whitmore

Yes, please

8/7

Official Group on the Megaw Report: MISC 84

The Prime Minister has set up a new Ministerial Group under the chairmanship of the Chancellor of the Exchequer to consider the Government's response to the Megaw Report and the steps which will need to be taken to establish new arrangements for determining the pay of the non-industrial Civil Service. This Group will be known as the Ministerial Group on the Megaw Report (MISC 83). She has also approved the setting up of a new Official Group on the Megaw Report (MISC 84) to assist the work of the Ministerial Group.

The Prime Minister has agreed that the Official Group should be under Treasury chairmanship and I am assuming that you will wish to nominate Peter Le Cheminant for this purpose. You may also wish to nominate a Treasury member of the Group; and I should be content for you to provide one of the Secretaries.

The other Departments represented on the Group will be the Inland Revenue, Customs and Excise, Defence, Health and Social Security, Management and Personnel Office, Employment, Central Policy Review Staff, No 10 Policy Unit and the Cabinet Office.

I should be grateful if you and the other recipients of this letter would let me have your nominations for the Group by Friday 9th July.

I am sending copies of this letter to Lawrence Airey, Douglas Lovelock, Frank Cooper, Ken Stowe, John Cassels, Ken Barnes, John Sparrow and Clive Whitmore.

ROBERT ARMSTRONG

Sir Douglas Wass, GCB

C A Whitmore Esq

With

the Compliments of

Sir Frank Cooper, G.C.B., C.M.G.

Permanent Under-Secretary of State

MINISTRY OF DEFENCE
SW1A 2HB

CONFIDENTIAL

MANAGEMENT IN CONFIDENCE

MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1A 2HB
Telephone 01-218 2193 (Direct Dialling)
01-218 9000 (Switchboard)

PERMANENT UNDER-SECRETARY OF STATE
SIR FRANK COOPER GCB CMG

PUS/82/838

Sir Robert Armstrong KCB CVO
Cabinet Office
70 Whitehall
London
SW1A 2AS

8 July 1982

Dear Robert.

OFFICIAL GROUP ON THE MEGAW REPORT: MISC 84

In your letter of 8 July to Douglas Wass you sought nominations for the new group MISC 84. I should like Max Phillips, AUS (Civilian Management) (C) to be the MOD's representative.

2. I am sending copies to Lawrence Airey, Douglas Lovelock, Ken Stowe, John Cassels, Ken Barnes, John Sparrow, Clive Whitmore and Douglas Wass.

Yours ever
Frank Cooper

FRANK COOPER

CONFIDENTIAL

MANAGEMENT IN CONFIDENCE

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PART 12 begins:-

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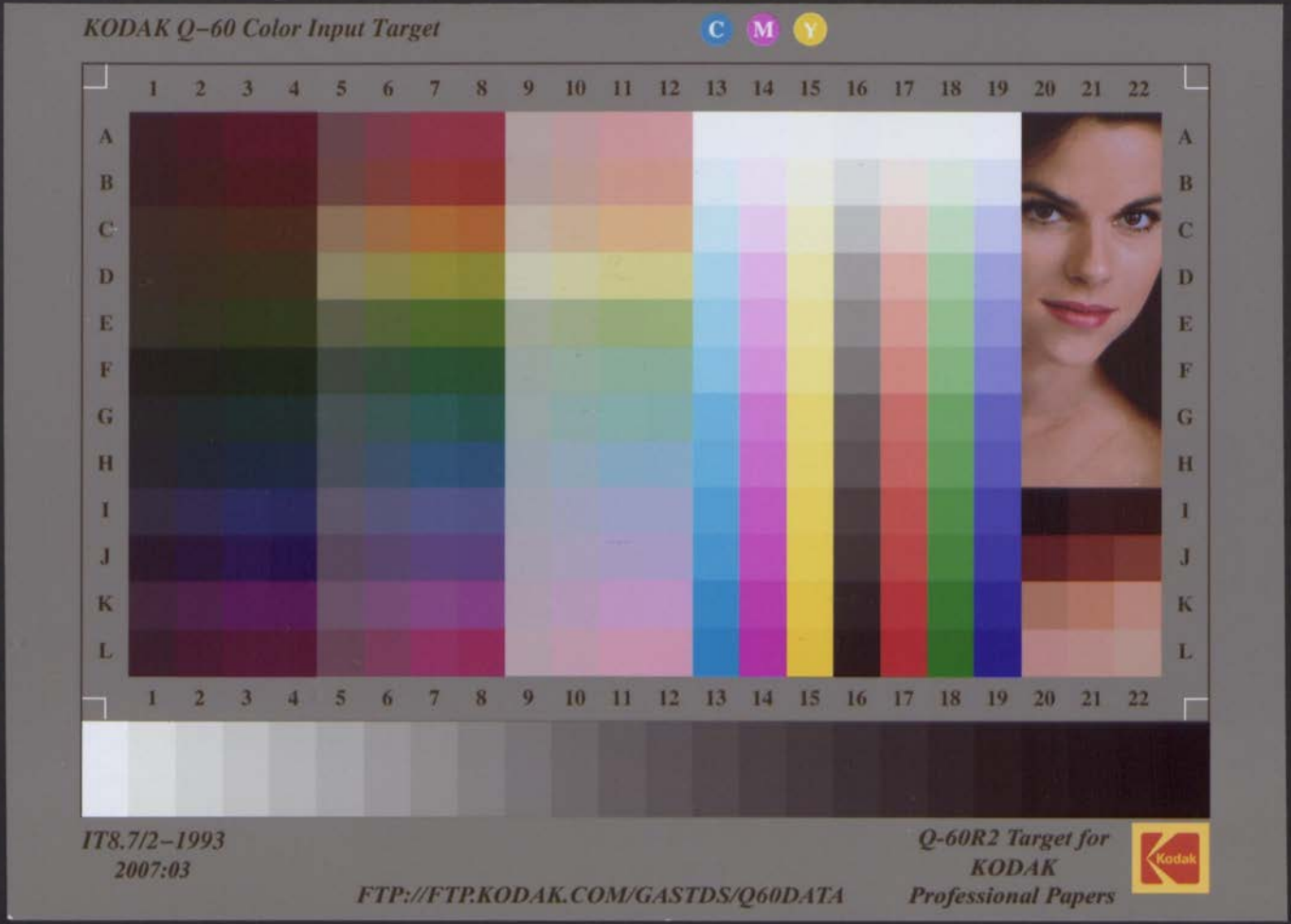
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