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PREM 19/1177

PAY - PENSIONS

CIVIL
SERVICE

PAY DISPUTE / STRIKE

84

PART 13

PT 1: May 1949

PT 13: Nov 1982

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PREM 19/1177

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~~PART 13~~

PART 13 ends:-

DB to R. Hatfield 17.1.84

PART 14 begins:-

M/S MPO to PTT 2.3.84

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file 1/84

10 DOWNING STREET

From the Private Secretary

MR. HATFIELD
CABINET OFFICE

CIVIL SERVICE PAY NEGOTIATIONS

The Prime Minister was grateful for Sir Robert Armstrong's minute of 16 January, and is content with the proposals set out in it for handling the 1984 Civil Service pay negotiations.

DAVID BARCLAY

17 January 1984

CONFIDENTIAL

1/84

Ref. A084/160

PRIME MINISTER

Yes no

Prime Minister

Agree?

DMS
16/1Civil Service Pay Negotiations 1984

I should be grateful to know whether you are content that the Ministerial and official machinery for handling the 1984 Civil Service pay negotiations should be the same as that in the last two rounds, allowing for changes in Ministerial and official responsibilities, ie:

- i. a Ministerial Group (MISC 66) composed as follows:

Chairman: Chancellor of the Exchequer with an understanding that you may wish to take the chair yourself on occasions

Members: Secretary of State for Defence
Secretary of State for Social Services
Secretary of State for Employment
Minister of State, Privy Council Office (Lord Gowrie)
Minister of State, Treasury (Mr Hayhoe)

- ii. an Official Group (MISC 67) under the chairmanship of Mr Peter Kemp, the Treasury Deputy Secretary in charge of the negotiations, who would also be available to attend the Ministerial Group as required.

2. This year the negotiations will probably not begin until the end of March when the results of the data collection exercise will be available to both sides. The unions may however wish to complete the negotiations by early May, before their annual conferences. Ministerial discussion is therefore likely to be concentrated in April but the official Group will be doing some preparatory work in February and March.

BA

ROBERT ARMSTRONG

16 January 1984



CE-ND
NBPM AT 2/11

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

21 November 1983

The Rt Hon George Younger MP
Secretary of State for Scotland
Scottish Office
Whitehall
LONDON SW1A 2AU

A handwritten signature in black ink, appearing to read 'George Younger'.

CIVIL SERVICE (SINGLE OUTSIDE ANALOGUE) GRADES

Thank you for your letter of 25 October on the treatment of the pay of the single outside analogue grades. I am grateful also for the replies from other colleagues concerned.

I agree, of course, with Geoffrey Howe's earlier comment about the arguments of principle for breaking single outside analogue links. But, as his letter indicated, we face serious practical obstacles in doing so in many cases. Moreover, a wide variety of staff are involved. Some belong to very specific sectors of the pay market and the best way to allow market factors to bear on them may be to continue with the existing arrangements. But my proposal referred only to this year and I certainly have it in mind to consult colleagues about the longer term as soon as we can see the options clearly.

Meanwhile, we are taking the opportunity to review the links, grade by grade, and taking steps to change or abolish those which are not satisfactory. As you know, we have already gone a good way towards getting forest workers' pay on a better footing, especially in respect of pensions. Barney Hayhoe is writing to you again separately about this. We are about to begin a review of Fire Service Officers in the Ministry of Defence and are also tackling firemen. Both of these links are questionable, though I note that Michael Heseltine has said he would be content to continue with existing arrangements for firemen in this pay round. His officials and mine will be pursuing this further.

/Patrick

22 NOV 1983





Patrick Jenkin raised the question of fringe bodies. I can confirm that we intend to maintain generally for this year links between fringe bodies and Civil Service or other public service models, subject to the costs being contained within the cash provision.

I am copying this letter to the recipients of yours.

A handwritten signature in black ink, appearing to read "Nigel Lawson", with a long horizontal flourish extending to the right.

NIGEL LAWSON

C. SERVICE : Pay
P+13

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*NBPM
1/1/4*

CONFIDENTIAL



QUEEN ANNE'S GATE
LONDON SW1H 9AT

31 October 1983

Dear Nigel,

CIVIL SERVICE "SINGLE OUTSIDE ANALOGUE" GRADES

Thank you for copying to me your letter of 7 October to Michael Heseltine in which you propose to continue in general the present arrangements for dealing with "single outside analogue" grades for a further year. This is just to let you know that I am content with the approach you suggest.

I am copying this letter to recipients of yours.

Lawson
Lawson

The Rt Hon Nigel Lawson, MP

CONFIDENTIAL

Civil Service
Room
A713

- 1 NOV 1983

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CONFIDENTIAL

WNO

NBAM
28/10

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref: J/PSO/15640/83

Your ref:

28 October 1983

Dear Nigel,

CIVIL SERVICE "SINGLE OUTSIDE ANALOGUE" GRADES

Thank you for sending me a copy of your letter of 1 October to Michael Heseltine.

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.

I also agree that we should see how our proposals on the longer term pay arrangements post Megaw, for the Civil Service develop before deciding our general policy for the future for the SOA grades.

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 models 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 letter to recipients of yours.

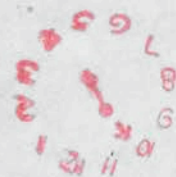
Yours
Patrick

PATRICK JENKIN

The Rt Hon Nigel Lawson MP

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Chua some
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9 - OCT 1983

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NSPM
AT
1/11

ce NO

MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

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

MO 20/17/6

26th October 1983

Dear Nigel

CIVIL SERVICE SINGLE OUTSIDE ANALOGUE GRADES

Thank you for your letter of 7th October.

I am content that we continue with existing arrangements for this pay round. The three major defence groups are police, Royal Fleet Auxiliary staff linked to Merchant Navy rates and firemen who are linked to local authority rates. I am however bound to say that having to contain the cost within existing cash limits means yet another financial squeeze for defence. The cost of the police settlement alone will increase pressure on cash limits by nearly £2M in a full year.

A copy of this letter goes to the Prime Minister and the other Cabinet colleagues, the Attorney General, the Lord Advocate, the Minister of State Privy Council Office and Sir Robert Armstrong.

yes
Michael Heseltine

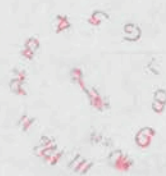
Michael Heseltine

The Rt Hon Nigel Lawson MP

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0455 CIVIC SERVICES : Pay

P413



NOV 1 1987

~~CC NO~~

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

NBPM

AT 25/10

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

25 October 1983

CIVIL SERVICE "SINGLE OUTSIDE ANALOGUE" GRADES

For the reasons set out in your letter of 7 October to Michael Heseltine, I think that we have little option but to continue the SOA pay arrangements this year.

As I made clear at my bilateral with Peter Rees, we find it very difficult indeed to absorb the extra cost of these settlements, and therefore I do not welcome your expectation that we should once again have to find the extra cost from our own resources. About 5 per cent of my Department has SOA links, compared to approximately 3 per cent for the whole Civil Service.

I am surprised at your comment that, even post-Megaw, it may well turn out to be sensible to continue the existing arrangements for most of these grades. This contrasts with Geoffrey Howe's comment in his letter of 1 October 1982 that there are "strong arguments in principle for breaking the single outside analogue links". I would have preferred us to conclude that this would be the last year when the links would be maintained. As a minimum, I hope we can agree that, before next year, the matter will be fully considered inter-Ministerially.

I am copying this letter to the Prime Minister and to other Cabinet colleagues, the Attorney General, the Lord Advocate, the Minister of State (Privy Council Office) and Sir Robert Armstrong.

GEORGE YOUNGER

Civil Service: Pay + Pension

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JF4627

Secretary of State for Trade and Industry

NBPM AT 25/10
c/NO

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET

TELEPHONE DIRECT LINE 01-215 5422
SWITCHBOARD 01-215 7877

24 October 1983

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

D Nigel

CIVIL SERVICE "SINGLE OUTSIDE ANALOGUE" GRADES

Thank you for sending me a copy of your letter of 7 October, proposing that for the present pay round the pay of the "single outside analogue" grades in the Civil Service should continue to be linked to specific outside pay rates. I am content with the approach you recommend.

2 I am copying this letter to the recipients of yours.

NORMAN TEBBIT

Civil Service : Pay + Pensions Pt 13

23 OCT 1983
H R I
B R I
G A N
I

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



From the Minister
CONFIDENTIAL

NBPM AT 24/10

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

24 October 1983

CIVIL SERVICE "SINGLE OUTSIDE ANALOGUE GRADES"

In your letter of 7 October to Michael Heseltine you suggested that in the present pay round we should continue for a further year with the present arrangements for dealing with the pay of single outside analogue grades in the Civil Service.

Apart from the farm workers on my Ministry's experimental farms about which, as you say, we have had separate correspondence, my interest is mainly concerned with ships' officers and crews whose pay is aligned to the National Maritime Board's pay agreements and the police constables at the Royal Botanic Gardens at Kew. As you mention, the Ministry of Defence has the major interest in Departmental police. Subject to Michael Heseltine's views, I am content with the proposals for this group.

In general I am content with your proposal to continue with the present arrangements for single outside analogue grades for a further year.

I am copying this letter to the Prime Minister, other Cabinet colleagues the Attorney General, the Lord Advocate, the Minister of State (Privy Council Office) and Sir Robert Armstrong.

MICHAEL JOPLING

Civil Service
Page 1 of 13

24 Oct 1961

12 1 2 3 4
5 6 7 8 9

NSPM AT 20/10

LGNC



NORTHERN IRELAND OFFICE
GREAT GEORGE STREET,
LONDON SW1P 3AJ

SECRETARY OF STATE
FOR
NORTHERN IRELAND

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
LONDON
SW1

20 October 1983

Dear Nigel

CIVIL SERVICE "SINGLE OUTSIDE ANALOGUE" GRADES

I have seen a copy of your letter to Michael Heseltine and I agree with your proposal to maintain the pay links between the Civil Service "single outside analogue" grades and their comparators for a further year.

In Northern Ireland, the pay for certain classes of employees such as police, teachers and water workers, which in GB are administered by local authorities, are funded entirely by central government. It is too early to judge what effect this will have during the coming pay round and I only mention this potential special NI difficulty now as something which we should be borne in mind.

I am copying this letter to the Prime Minister, other members of the Cabinet, the Attorney General, the Lord Advocate, the Minister of State (Privy Council Office) and to Sir Robert Armstrong.

[Handwritten signature]

Civil Service
Part 1
A-13



20 OCT 1983

CONFIDENTIAL

Prime Minister

2

cc Chief Secretary
 Mr Middleton
 Mr Bailey
 Mr Anson
 Mr Kemp
 Mr Wilding
 Mr Pearce
 Mr Mountfield
 Mr P Davis
 Mr N J King
 Miss Sinclair
 Mr Traynor
 Mr Tuson
 Mr Corcoran



AT 10/10

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

7 October 1983

The Rt Hon Michael Heseltine MP
 Secretary of State for Defence
 Ministry of Defence
 Whitehall
 London SW1A 2HB

A handwritten signature or set of initials, possibly 'M' or 'MH', written in dark ink.

A handwritten signature in dark ink, appearing to read 'Michael Heseltine'.

CIVIL SERVICE "SINGLE OUTSIDE ANALOGUE" GRADES

We need to decide how we treat in the present pay round the pay of the "single outside analogue" (SOA) grades in the Civil Service. There are about 20,000 non-industrial and industrial civil servants (over half in your department) whose pay has in the past been directly or indirectly linked to specific outside, mainly public sector, pay rates. The most important groups are Ministry of Defence police, the merchant seamen in the Royal Fleet Auxiliary, nurses in the special and state hospitals, teachers, firemen, agricultural workers, and printers.

We agreed that these pay links should in the main continue to operate during the 1982/83 pay round. We cannot decide on our general policy for the future until we have taken our thinking further on longer term pay arrangements, post Megaw, for the civil service generally, although it may well turn out to be sensible to continue the existing arrangements for most, at any rate, of these grades. In those few cases where the present arrangements appear to be unsatisfactory, we are already carrying out special reviews of them. I have also had separate correspondence with colleagues concerned with the special cases of Government farm and forest workers.

I therefore suggest that the right course would be to continue in general with the present arrangements for a further year. The number of staff involved is relatively small; applying these settlements during the past year cost very little more than the general pay increases agreed for the rest of the Civil Service would have done; and most of them follow public service settlements which we already directly control or

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influence.

The first group of civil servants who would expect to settle in this pay round are the departmental police, principally those in your department. Maintaining the presently agreed level of link with the pay of the civil police (in line with the recommendations of the Wright Committee which we accepted in 1979) would require an 8.4 per cent increase for those below the rank of Superintendent and 7.7 per cent for Superintendents and Chief Superintendents.

I shall be glad to know that you and other colleagues are content with this general approach (and with the specific proposals for the departmental police); I think it is the right one for us to adopt. So far as cost goes, I should of course expect any difference between the overall value of single outside settlements and what is eventually settled for non-industrial civil servants generally to be accommodated within cash limits.

I am copying this letter to the Prime Minister and to other Cabinet colleagues, the Attorney General, the Lord Advocate, the Minister of State (Privy Council Office) and Sir Robert Armstrong.

A handwritten signature in dark ink, appearing to read 'Nigel Lawson', written over a horizontal line.

NIGEL LAWSON

MR SCHOLAR

19 September 1983

cc ~~Mr Mount~~
Mr Ingham

PAY ARRANGEMENTS FOR NON-INDUSTRIAL CIVIL SERVANTS

I am minuting you to bring you up to date on the developments on this front: Ministers recently considered how the negotiations on Megaw should be handled in the context of the 1984 settlement with the Civil Service and decided to make its position clear

- the Government was prepared to work towards a Megaw arrangement but with safeguards (no unilateral access to arbitration plus a parliamentary over-ride)
- and to consider, as a step towards a Megaw-type arrangement, the collection of information on pay and other relevant factors to inform, but not to constrain the 1984 negotiations.

This was put to the unions orally. Predictably it did not go down well, coming as it did at the same time as the (leaked) news of the 3% pay factor. I was told that the leaders "almost walked out". I am inclined to be sceptical about this: where would they go? The union side asked for a written version of the Government's position. I enclose a draft which will be put to them, as a draft, tomorrow. We have contributed to it from here and I am satisfied that it is firm on the vital points while retaining a reasonable tone with the rank and file civil servant in mind. Treasury Ministers do not consider it necessary to bother the Prime Minister or other Ministerial colleagues with this and I think that is right since the draft closely reflects the recent discussion Chaired by the Prime Minister.

NICHOLAS OWEN

CONFIDENTIAL

DRAFT LETTER TO SEND TO :

P D Jones Esq
Secretary
Council of Civil Service Unions

PAY ARRANGEMENTS FOR NON-INDUSTRIAL CIVIL SERVANTS

We met on 13 September when I outlined to you the Government's position on a number of points which you had raised in connection with future pay arrangements for non-industrial civil servants. I write now to confirm what I said.

2. Overall I confirmed to you that the Government were prepared to continue to try to reach agreement on a new pay system based on the recommendations of the Megaw Report. In line with Megaw, such a system must give full weight to all those factors which are relevant to any settlement - affordability, retention, recruitment and other non-pay factors in conditions of service, as well as pay movements and levels elsewhere in the economy.

3. There are many points on which agreement will be needed. You have however asked for indications of our position on three specific matters connected with the longer-term, and one specific point in connection with the 1984 negotiations.

4. First, you raised questions about the role of the new independent body which Megaw proposed should collect data for the negotiations, and the extent to which the negotiating parties should have access to the detailed material which it

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would collect. Megaw had not envisaged such access, but you have argued that both parties need this if confidence in the body's work is to be established. I told you that the Government were prepared to discuss this possibility constructively. It would however be necessary for the body to be accepted as authoritative and, in keeping with the Megaw recommendations, for pay negotiations to be conducted within the framework established by its assessments. In these negotiations other factors could of course be properly brought to bear.

5. Second, as you know Megaw suggested that when there were pay "levels" negotiations (every four years) agreement should be reached within upper and lower quartiles on the appropriate levels, which would then be a factor to be taken into account in negotiating pay movements within the constraints of the movements quartiles. You asked that the negotiating range in respect of levels should be narrowed, perhaps so as to go from quartiles to the fourth and sixth deciles. I told you that the Government's view was that we should adhere to quartiles as Megaw recommended as the range within which the parties should seek to reach agreement.

6. Third, you asked for a right of unilateral access to arbitration; and assurances regarding Parliamentary override on arbitration awards. In reply I said that the Government recognised that arbitration can have a

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role to play in resolving disputes in certain circumstances. But the Government did not consider it right that either party should be bound to go to arbitration against its will. This is in line with Megaw, which rejected unilateral access. In addition I said that the Government could envisage circumstances in which Parliament might need to be asked to approve the overriding of an arbitration award or of the operation of the new arrangements overall. The Government's position in this respect must be safeguarded under any new agreement.

7. We are agreed that it is not now possible to contemplate having new long-term arrangements in place for the 1984 pay negotiations. That being so, and in line with the kind of arrangements we are discussing for the longer-term, the Government are however prepared to discuss with the CCSU the possibility of some form of data collection to inform those negotiations. We shall want to consider with you the details, but we are thinking in terms of fairly generalised data concerning non-manual pay settlements in the private sector as a whole in the present pay round. The data must include information on recruitment, retention and other labour market factors. This information might be collected primarily by the Office of Manpower Economics in accordance with ground rules to be agreed between us with appropriate access of the parties to the information collected.

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8. I made the following further points in this connection :-

- a. Discussion of this possibility, and if agreed the collection of data for 1984, is based on the assumption that the parties remain in negotiation over Megaw and are making progress in moving forward towards acceptable long-term arrangements.
- b. Data collected would inform but not in any way constrain the 1984 pay negotiations. Since we have yet to reach agreement on long-term arrangements, next year's negotiation will therefore necessarily be on an ad hoc basis, as will the data collection. It should thus be explicitly understood and agreed in advance that the negotiating freedom of either side would not be restricted by reason of the data collected; and there would be no particular limit of the kind envisaged in Megaw, within which the eventual outcome could lie.
- c. As in the case of this year's negotiations, there can be no advance commitment by the Government to go to arbitration if a negotiated settlement cannot be reached for 1984. This is consistent with our position on longer-term arrangements relating to arbitration. Naturally, as this year, we hope a negotiated settlement will be reached.

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9. The Government propose that discussions of the possibility of data collection, and if so agreed the data collection itself, should proceed in parallel with discussions towards full agreement based on Megaw for the longer-term, taking account of the points and positions noted above and also of the many other points we have yet to discuss. You suggested, and we agreed, that we should aim for midsummer 1984 as a target date for a full draft agreement on longer-term arrangements.

10. I shall be grateful to know the CCSUs views, and in particular that you are content to proceed to discuss the possibility of data collection for 1984 on the basis set out in paragraphs 7 and 8 above.

CONFIDENTIAL

CONFIDENTIAL

Bcc
last para

JR/HZ

SUBJECT



cc DES.

cc M. M. M.

10 DOWNING STREET

From the Private Secretary

8 September 1983

Dear Margaret,

MEGAW

The Prime Minister took a meeting on Monday evening about the questions raised in the note by the Chairman of the Official Committee on Megaw attached to your letter to me of 2 September. The Chancellor of the Exchequer, the Secretaries of State for Defence, Social Services and Employment, the Minister of State, Privy Council Office, Sir Robert Armstrong, Mr. Kemp (HM Treasury), Mr. Gregson and Mr. Mount were present.

In a short discussion it was agreed that the Government should continue the attempt to agree a new pay system based on Megaw's recommendations. But this did not imply unconditional agreement by the Government to data collection as a background to the 1984 Civil Service pay negotiations. Such agreement might lead the unions to suppose that the lower quartile would be the floor of negotiation, and if so the outcome would almost certainly be higher than the 1983 pay settlement. It would be essential to include amongst the data which would be collected information about retention, recruitment and affordability; the Government should make it clear that it was not binding itself to negotiation within the inter-quartile range; and there could be no question of agreement to the unions' requests that the inter-quartile range should be narrowed so as to lie between the 40th and 60th percentile, that the Government should allow unilateral access to arbitration, and that Parliamentary override of an arbitration should be possible only in clearly defined circumstances such as the operation of a national pay policy.

Summing up the discussion, the Prime Minister said that the Official Side should indicate that the Government wished to make progress in the discussions to agree a system based on Megaw. They should make it clear that the Government could not accept any narrowing of the inter-quartile range, unilateral access to arbitration, or a restrictive Parliamentary override. Collection of data on private sector pay movements by the Office of Manpower Economics could go ahead, providing it was part of a wider collection of data, as envisaged in the discussion. The Official Side would need to make it clear from the start that, in the 1984 pay negotiations, the collection of data did not imply that the Government would negotiate within the inter-quartile range; indeed, the Government should say explicitly

/ that

CONFIDENTIAL

- 2 -

that it was not bound to that range. As to the two broad approaches to the collection of data, set out in annex A to the MISC 84 report, there was a preference for the generalised approach (paragraph 5b of annex A), since it seemed to be further away from comparability.

I am sending copies of this letter to Richard Mottram (Ministry of Defence), Steve Godber (Department of Health and Social Security), Barnaby Shaw (Department of Employment), Mary Brown (Privy Council Office), Richard Hatfield (Cabinet Office), Mr. Kemp (H.M. Treasury), Mr. Gregson and Mr. Mount.

Yours sincerely,

Michael Scholar

Miss Margaret O'Mara,
H.M. Treasury.

CONFIDENTIAL



P.01088

PRIME MINISTER

Megaw: Meeting on 5 September

BACKGROUND

Before the Summer Recess there were exchanges between you, the Chancellor of the Exchequer, and the Secretary of State for Employment on the current negotiations with the Civil Service trade unions on the recommendations of the Megaw Committee for a new long-term system for settling the pay of the non-industrial Civil Service. The main point at issue was that the Chancellor of the Exchequer wished to tell the unions that the Government would be prepared to explore the possibility of setting up formal arrangements for collecting data on private sector pay movements as background to the 1984 Civil Service pay negotiations; the Secretary of State for Employment expressed strong misgivings about the wisdom of this. The relevant arguments are set out in the Secretary of State for Employment's letter of 27 July and the Chancellor of the Exchequer's minute of 28 July.

2. In the event, no statement was made. Exploratory discussions with the unions have continued. The current state of affairs is described in the Note by the Chairman of the Official Group on Megaw, circulated with the letter of 2 September from the Chancellor of the Exchequer's Private Secretary to yours.

3. The Note reports that the unions have raised three main issues.

a. That they should have access to the detailed data collected by the Pay Information Board (PIB) proposed by Megaw.

b. That the level of Civil Service pay should always lie between the 40th and 60th percentile of the range of pay for outside staff in comparable employment, instead of the much



wider range (25th to 75th percentile) recommended by Megaw.

c. That the Government should allow unilateral access to arbitration; and that Parliamentary override of an arbitration award should be possible only in clearly defined circumstances such as the operation of a national pay policy. (The Government's position is that access to arbitration should be permissible only if both sides agree; and that the Government must have an unfettered right to seek Parliamentary override. Megaw recommended against unilateral access; but he also recommended that the Government should be committed to accepting the outcome of arbitration - i.e. that any Parliamentary override should be at the initiative of Parliament itself, not the Government).

The unions are said to be looking for a statement of the Government's views on these issues, and the handling of the 1984 pay negotiations, in time for a meeting which they are holding on 6 October.

4. The Chairman of the Official Group appears to favour not bringing these issues to a head, but instead seeking to make gradual progress towards a Megaw-type system by offering some form of data collection as an input to the 1984 pay negotiations.

5. You will recall that in discussions with the National Health Service (NHS) trade unions the Government has refused to entertain the possibility of collecting agreed data on outside pay movements as an input to NHS pay negotiations, on the grounds that this would concentrate attention undesirably on comparability rather than recruitment and retention and what can be afforded. The Chairman of the Official Group (Annex A to his Note) recognises that an offer of data collection to the Civil Service unions could make this position more difficult to hold in the NHS and elsewhere, but suggests that the risk of repercussions would be reduced if the data were linked to specific Civil Service grades.



MAIN ISSUES

6. There are two main issues.
- i. Does the Government wish to work towards a Civil Service pay system based on the Megaw recommendations?
 - ii. In the light of the answer to i., what are the next steps in the negotiations with the trades unions?

Do we want a Megaw system?

7. There are strong arguments for continuing to work towards a Megaw system. The Megaw Committee was established on the Government's initiative. Its recommendations are widely regarded as sympathetic to the views deployed in evidence by the Government. The Government has announced its acceptance in principle of the recommendations; and this was repeated during the General Election campaign. It would be extremely difficult, and damaging to staff relations, now to abandon the attempts to agree a system based on Megaw. Moreover, Ministers have seen advantage in establishing a stable system for settling Civil Service pay; there is no ready alternative to Megaw; and it is not easy to see how one could be created.

8. Nevertheless, a Megaw system will certainly have features which Ministers will find unattractive: in particular, it is bound to include formal arrangements for collection of data on outside pay movements and levels; and it is bound to commit the Government, save in exceptional circumstances, to making pay offers in line with some measure of outside pay movements (in practice, almost certainly the lower quartile will be the floor). If Ministers consider that they will not in practice be able to accept these features, it would be better to terminate the negotiations quickly: the longer they go on, the greater the expectations of progress, and the greater the disappointment (and risk of accusations of bad faith) from ultimate breakdown.



9. So far, Ministers have taken the view that they are willing to work towards a Megaw system in good faith, but that they are not prepared to make significant concessions overall in order to achieve it. The meeting on 5 September seems likely to continue to take that view.

Next steps

10. The Chairman of the Official Group identifies three main courses of action. He dismisses stalling (paragraph 12c of his Note) on the grounds that it will be regarded as a refusal to negotiate seriously. That seems plausible.

11. Of the remaining options, the first would be to make a clear statement of the Government's views on the issues mentioned in paragraph 3 above. It would probably be possible to be reasonably forthcoming on the first (as the Chairman of the Official Group points out, the Government itself is unlikely to want the PIB to deliver its judgments without consultation or question); but a Government statement at this stage on the second and third would have to be uncompromising. The likely outcome would be one or other of the following.

a. It is conceivable, but unlikely, that the unions would acquiesce. If so - unless Ministers should have decided that a Megaw system is, on reflection, undesirable - well and good.

b. More probably, it would lead to a breakdown in the negotiations. In this event, an important weakness in the Government's position would be that it could not claim to be standing four-square on the Megaw recommendations: on arbitration, it would be taking a significantly harder line than Megaw. It would therefore risk being accused of deliberately wrecking the negotiations by introducing a departure from the Megaw recommendations which it knew was bound to be unacceptable to the unions. The Chairman of the Official Group also says that breakdown would mean that there would be "no framework for either the 1984 negotiations or for the longer term". Ministers will wish to consider how _____



serious a difficulty this would be. Most forms of employment do not have a "framework" in this sense, and manage well enough without it. But there are special considerations in the case of the Government and the Civil Service which Ministers have previously regarded as making a "framework" desirable.

12. The second main option is to try to make some progress towards a Megaw-type system by introducing piecemeal changes: the particular possibility mentioned in the Note is the possibility of data collection for the 1984 pay negotiations. An important difficulty about this is that data collection is not a free-standing part of the Megaw system. The logic of the Megaw recommendations is that each side should accept limitations on its freedom (in particular, it ^{must} bargain within the inter quartile range of outside pay settlements). The limits must be set objectively by a third party: hence the recommendation for data collection by a PIB. Divorced from the rest of Megaw recommendations, data collection has no obvious merit; and offering it to the Civil Service would make it more difficult to refuse it to other public service groups. It might also be difficult to drop later if the negotiations eventually failed. The Government would implicitly have accepted the relevance of data collection to pay determination, even outside a Megaw system; and it is seldom easy to argue that ignorance is preferable to knowledge. The difficulties are not necessarily insuperable; but Ministers will wish to weigh the risks carefully.

13. An approach which might be less risky would be to link the possibility of data collection explicitly to acceptance of one or more of the key Megaw recommendations: the most natural possibility would be to link it with the restriction of bargaining to the inter quartile range. This would force the unions to accept that they could not expect to do significantly better than the private sector. On the other hand, it would commit the Government to offering at least the lower quartile of private sector pay movements in 1984. Some Ministers will not welcome such a commitment. But if there is to be a Megaw system at all, it will have to be given sooner or later: if it is unacceptable in principle,

as argued in paragraph 8 above, it would be better to abandon the attempt to negotiate a Megaw system.

Further work

14. The options before Ministers are described in fairly general terms and appear to need further elaboration before a specific proposition could be put to the unions. In particular, if Ministers favour offering some form of data collection, important questions of detail (discussed in Annex A to the Note) will need to be settled. Moreover, presentation to the unions will need careful consideration. You will probably wish to invite the Chancellor of the Exchequer to arrange for officials to produce further advice for Ministers in the light of the Conclusions of the meeting.

HANDLING

15. You will wish to ask the Chancellor of the Exchequer to open the discussion by outlining the current state of discussions with the trade unions, and his views on the right way forward. You might then invite the Secretary of State for Employment to speak, both on the issue of data collection and on negotiating tactics. The Secretary of State for Social Services will wish to comment both as a major employer and from the standpoint of possible repercussions in the NHS. The Secretary of State for Defence and the Minister for the Arts will have views, in particular, on the likely effects of the various possible courses on staff relations and morale.

CONCLUSIONS

16. You will wish the meeting to reach conclusions on the future handling of the negotiations with the Civil Service trades unions on Megaw and probably, in the light of those conclusions, to invite the Chancellor of the Exchequer to arrange for officials to produce further advice on detailed tactics and presentation in the light of those conclusions.

Peg
P L GREGSON

Cabinet Office
2 September 1983

MR SCHOLAR

2 September 1983

cc Mr Mount

PAY ARRANGEMENTS FOR THE CIVIL SERVICE

The time is approaching when Ministers have to finally decide whether they do want a Megaw-based system for pay negotiations, and on what terms; and if not, how they can find an honourable way out of their commitment to have one. This subject will arise in Monday's meeting on this subject so I am rehearsing some basic arguments below.

The advantages which could be claimed for a Megaw system is that it offers a degree of comparability sufficient to reassure civil servants that they will be looked after, but with sufficient flexibility to allow the Government to take managerial factors - affordability, and the need to recruit, retain and motivate - into account. It could be argued that, in comparison with unconstrained collective bargaining, a Megaw system offers improved industrial relations and greater public confidence in the Government's dealings with its employees. Moreover, it would do so at little or no extra cost, because the Government - according to Sir Geoffrey Howe's evidence to Megaw - would not want Civil Service pay to fall behind the private sector in any case. A Megaw-based system would also avoid wild fluctuations in settlements (several years of falling behind followed by large, inflationary, catching-up settlements.)

The disadvantages of such a system are

1) That by building in comparability into its own system the Government is setting a bad example to the other employers. It is difficult to see how the average level of settlements in the economy can fall, or fall quickly enough, if all employers negotiate primarily on the basis of comparability. Settlements will fall if employers negotiate on the basis of their capacity to pay (low, in many cases) and ability to recruit (easy, in most) rather than on a follow-my-leader basis.

2) Megaw will constrain the Government more than the unions. The Government has secured settlements lower than the Lower Quartile

in the last three rounds; it could not do so under Megaw. Even Lower Quartile settlements would be difficult to achieve; union leaders would dig in hard rather than have to report to their members that they had secured only the very minimum possible under the new arrangements. Conversely, the unions would not be effectively constrained since they cannot realistically expect, under this Government at least, to secure settlements greater than the Upper Quartile.

3) Although the Megaw system provides a degree of flexibility to accommodate managerial factors, in practice, the recruitment, retention and motivation factors are less visible than pay comparisons. The latter may for this reason tend to dominate negotiations, rather than the former.

My own view is that the disadvantages for the Government outweigh the advantages of a quieter life; it is not my impression that a Megaw system would improve industrial relations in the Civil Service sufficiently to improve Civil Service performance or affect voting behaviour. Civil servants naturally hanker for the old pay research regime which allowed them to haggle over the comparability data and then to secure settlements equal to the private sector upper quartile level. But given that this is denied them, I doubt myself whether the majority would be significantly reassured by Megaw arrangements. The Civil Service unions themselves seem very suspicious of them. Thus Megaw might achieve, at best, modest industrial relations gains, at some cost in terms of the paybill and the demonstration effect on the rest of the economy.

NICHOLAS OWEN



CONFIDENTIAL



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

2 September 1983

Michael Scholar Esq
10 Downing Street

Dear Michael,

MEGAW

The background papers to the meeting which the Prime Minister is holding on Megaw on 5 September are the Chancellor's minute of 22 July and the subsequent comments of other Ministers. As a further contribution to Monday's meeting, I enclose a note from the Chairman of the Official Committee on Megaw, which has been discussed amongst Departments. It sets out the present position and the main options now before the Government.

I am copying this letter to the Private Secretaries of those Ministers who are attending the meeting on Monday, and to Richard Hatfield (Cabinet Office).

Yours sincerely,

Margaret O'Mara

MISS M O'MARA
Private Secretary

CONFIDENTIAL

LONGER TERM PAY ARRANGEMENTS FOR NON-INDUSTRIAL CIVIL SERVANTS: OPTIONS IN NEGOTIATIONS WITH THE UNIONS

REPORT FROM THE CHAIRMAN OF THE OFFICIAL GROUP ON THE MEGAW REPORT (MISC 84)

Introduction

In December 1982 the Government announced its acceptance in principle of the broad approach of the Megaw Report and its preparedness to enter into negotiations with the unions on the basis of its recommendations. This commitment was repeated in the course of the recent election campaign. Over the last six months there have been extensive exchanges between Treasury officials and the Civil Service unions.

Issues on Longer Term Arrangements

2. There are very many matters to be settled if a new long term agreement based on Megaw is to be reached with the unions. But recently discussions have concentrated on 3 points to which the unions attach particular importance.

3. These points are:-

- (a) Transparency of the activities of the proposed Pay Information Board (PIB);
- (b) Width of the possible bands of outside earning levels within which Civil Service pay should lie (coupled with the unions' desire for a transitional period during which pay levels would be put "right" as a basis for the operation of the new system);
- (c) Unilateral access to arbitration and the question of Government override of an arbitration award.

4. The unions' position on (a) is that they wish to have the right of access to the detailed data which the PIB would collect. This goes beyond what Megaw envisaged; but it may be that Megaw was not very realistic in thinking that the attitude of the unions to the role of data in pay bargaining could be changed overnight. And what ultimately matters is not the unions' role in the process of handling data, but the fact that it would no longer be accepted by both sides, as under pay research, that civil servants should always remain in a

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certain position (the median) in a "pay league". There could, moreover, be certain advantages to the Government in agreeing on greater "transparency" for the PIB's operations: it would not necessarily suit the Government to have an independent and authoritative PIB working in secret consulting neither party on its interpretation of the data it collects. Officials believe it would not be worth foundering on this issue alone if a satisfactory agreement could be reached on the other elements in a new system.

5. (b) is much more difficult. The essence of Megaw - and one of its main attractions for the Government - is that the pay increase for civil servants in any one year should reflect outside pay movements in that year. Any action on pay levels would need to be accommodated within that constraint. On the face of it, there are few attractions in narrowing the ranges within which levels might "legitimately" lie under a new pay system. This begins to look like a return to straight comparability. Moreover, it is the much greater width of the ranges of levels than under pay research which give the best guarantee that the launching of the Megaw system would not require any significant prior adjustments to ensure that all Civil Service pay levels lay within the prescribed ranges. There is a further fundamental problem on levels insofar as the unions are absolutely convinced that Civil Service pay levels have fallen badly behind and must be put "right" over a transitional period during which the normal "movement" constraints would be modified.

6. (c) is also very difficult. The unions cling to the right of unilateral access to arbitration, and are only prepared to discuss the possibility of a Parliamentary override of an arbitration award in very clearly defined circumstances such as the operation of a national pay policy. Ministers, on the other hand, decided in E Committee on 2 December 1982 that any new arbitration agreement must provide for access only where both parties agreed; and that in addition, the Government would need to retain the right to ask Parliament to overturn an arbitration award in unspecified circumstances. The present positions of the two sides are therefore wide apart here.

7. Against this background there is no prospect of early agreement on detailed new pay determination arrangements for the Civil Service. This does not mean that such agreement could not be reached in the

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longer run, perhaps by development in stages, particularly if moderate opinion continues to reassert itself in the unions and their negotiators as a result have more room for manoeuvre than present Conference resolutions permit them.

8. It is likely, however, that a statement of the Government's views on the points at (a)-(c) above would lead quickly to a breakdown in the present discussions because it would highlight the existing gulf between the parties. One way to avoid this, and to sustain the negotiations on a long term agreement, would be to take a positive step in the direction charted by Megaw in the procedures for the 1984 pay negotiations. This could take the form of some limited data collection on pay movements to inform (not constrain) the 1984 negotiations: this is something for which the unions are already asking.

1984 Pay Negotiations

9. Such a step would be seen by the unions and by civil servants in general as a tangible sign of progress in the discussions on a new pay determination system. (Data collection would certainly form an important element in any long term arrangements which could be agreed with the unions.) At the same time, neither side would be bound by the formalities of a full agreement: it would allow a trial run of one key aspect of a Megaw-based system. There is a good chance that if the unions were offered a data collection exercise to inform the 1984 negotiations they would not press now their request for a prior indication from the Government of its willingness to allow access to arbitration, if necessary, in 1984.

10. This option is worth serious consideration. Certainly the availability of any data produced on an agreed basis might de facto affect the Government's room for manoeuvre. It would make it more difficult to achieve an agreed settlement below the lower quartile figure. On the other hand, there is little reason to suppose that the unions would be prepared to settle for less next year in any case, and this is no more than the constraint which the Government has implicitly accepted as part and parcel of the Megaw approach. However, an important difference from Megaw is that "informed" pay bargaining of this kind would leave the Government free if it chose to do so (eg because it thought this was justified on grounds of affordability) to impose a settlement below the lower quartile without

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formally breaking a new pay agreement, or invoking safeguard clauses at the outset. The Government would be free to decide at the time of the negotiations whether to seek an agreed settlement, impose one, or permit arbitration and if so, on what basis.

11. The note at Annex A contains preliminary suggestions on how data collection might be carried out. Concern about the possible implications of this for other public service groups could point to linking the data to certain specific Civil Service grades. It could, however, be difficult to agree in time with the unions the job evaluation methods to be used for this. It would also make it more difficult to resist pressure for ancillary information on pay levels even though the data relevant to the negotiations would be about pay movements. A more generalised approach to data on pay movements would avoid these difficulties but would carry a greater risk of being claimed as relevant by other groups. It would also be necessary to decide on the precise role of the OME and the use of consultants and whether it might be helpful to have an individual appointed to oversee the data collection work on an independent basis. If Ministers wish to pursue the option of data collection for 1984, a further paper will be prepared by officials setting out the detailed issues involved in its handling.

Options

12. The unions have asked for an indication of the Government's present position on the issues outlined above in time for a meeting they are holding on 6 October. In tactical terms the main options appear to be:

- (a) To put forward a definitive statement of the Government's position on issues (a)-(c); with no offer of anything special for 1984;
- (b) To continue discussions on (a)-(c) but to make these less pressing by putting forward ad hoc proposals, including the possibility of data collection, for the handling of the 1984 pay negotiations which would constitute a step in the direction charted by Megaw; these proposals could be taken forward at the same time as progress in discussions on the longer term;
- (c) To refuse to take up a substantive position on issues (a)-(c), or to contemplate ad hoc data collection arrangements for 1984.

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13. In negotiating terms (c) is not a tenable approach. The Megaw Report was published over a year ago. "Exploratory" discussions without sign of progress cannot continue indefinitely and the issue of the handling of the 1984 negotiations is now on the table. The choices are effectively between (a) and (b).

14. (a) would be likely to precipitate an early breakdown in the discussions on a long term agreement. The unions would presumably press for an early meeting with Ministers to discuss the Government's position and failure to reach agreement (if coupled with continued refusal on data collection for 1984) would lead to the collapse of the process started by the setting up of the Megaw Inquiry. There would then be no framework for either the 1984 negotiations or for the longer term.

15. (b) has its drawbacks. But it looks attainable and to the Government it gives more room for manoeuvre for the present than if it was moving at once straight into a full scale Megaw system (which would formally constrain its bargaining position) while at the same time keeping the discussions with the unions alive.

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DATA COLLECTION FOR 1984 PAY NEGOTIATIONS

1. It would not be necessary to establish a Pay Information Board to undertake data collection for the 1984 negotiations. The Office of Manpower Economics, probably with help from consultants, could be asked to take on this work. The way in which they would set about collecting data on pay movements (but not levels) to inform (but not constrain) the 1984 pay negotiations would need to be agreed beforehand with the unions. If no agreement could be reached, there would be no data collection.
2. Information would be gathered from private sector firms on changes in non-manual basic pay rates only. On past form, changes in bonuses, overtime etc are a relatively small and stable element of earnings: they could therefore be ignored for the purposes of this exercise. Improvements in outside hours and leave would also be left out of account.
3. It would be necessary to decide on the appropriate balance between the different sectors of the economy: manufacturing, service industries, financial sector etc; the geographical spread; and the spread in terms of size of firms to be contacted.
4. Agreement would be needed on the extent to which the data collected would be made public. The views of the firms involved would clearly need to be respected. But the fact that data was being collected for use in the 1984 Civil Service pay negotiations would not be secret and it is therefore probable that the overall ranges would become known.
5. Two broad approaches to the collection of data would be possible:-
 - (a) one approach would be to establish the job weights at certain key levels in the Civil Service and then collect data on changes in pay rates for jobs of comparable weight in the private sector. Since the data to be collected would be concerned with pay movements, and not with pay levels, it might be sufficient to choose jobs in 3 of the main Administration grades - for example, Clerical Officer, Higher Executive Officer and Principal. The result of the exercise would be 3 separate ranges of pay increases in the private sector for jobs whose weight was comparable to the selected Civil Service grades. This would make it more difficult

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for other groups to argue in the run-up to their pay negotiations in 1984 that the data collected by the OME for the Civil Service negotiations was relevant to them, although they might still do so particularly if the ranges were much the same and could be taken as a reflection of non-manual pay increases in general;

- (b) An alternative approach would be to collect generalised data about pay movements among non-manuals in the private sector. This could more readily be agreed with the unions since it would not involve any need for job evaluation. It would also not leave the way open to pressure for information to be provided on outside pay levels since no basis for this comparison would exist. Arguably, however, this approach carries a greater risk that the data collected will be claimed as relevant by other public service groups, although this could be reduced by ensuring that the Civil Service pay settlement came late in the pay round.

6. Megaw proposed that the period to be covered by data collection on pay movements should run from August to February. But it would be possible to extend this to, say, April 1984, so as to ensure that the bulk of other public service settlements were out of the way before the results of data collection for the Civil Service were known. This would involve a degree of retrospection for the Civil Service settlement. It is possible that such a timetable would in any case prove necessary for 1984 because of the time needed to launch the data-collecting exercise.

7. The costs of such data-gathering in 1984 would be minimal.



ce NO

MBRM

MS 5/9

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

5 September 1983

Miss Janet Lewis-Jones
Private Secretary to the
Lord President of the Council

Dear Janet,

MAKING THE PRINCIPAL CIVIL SERVICE PENSION SCHEME CONTRIBUTORY

The Chancellor will shortly be circulating a paper to Cabinet on public sector pensions policy for discussion at the meeting on 15 September. It will include a proposal that the Principal Civil Service Scheme should be made contributory, although the Chancellor is only seeking a decision in principle at this stage.

Since the subject may come up at the Cabinet meeting, your Minister may wish to see copies of the recent correspondence on the subject which I enclose.

I am copying this letter to David Heyhoe (Lord Privy Seal's Office) and John Lyon (NIO). I am also sending copies, without the enclosures, to the Private Secretaries of Cabinet Ministers who have already seen the correspondence.

Yours sincerely,

Margaret O'Mara

MISS M O'MARA
Private Secretary

SEP 1983



CCNO

From: THE PRIVATE SECRETARY

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MBPM

MUS 2/9

HOME OFFICE
QUEEN ANNE'S GATE
LONDON SW1H 9AT

30 August 1983

Dear Margaret,

MAKING THE PRINCIPAL CIVIL SERVICE PENSION SCHEME CONTRIBUTORY

The Home Secretary has seen your letter of 11 August to Brett Bonner, setting out the Chancellor's proposals for negotiations with the civil service union on how the PCSPC could be made contributory.

He sees no objection to discussions being opened with the trade unions on the modalities, but he is concerned that, in preparing for these negotiations full account should be taken of the position of prison officers under the PCSPS and the problems which could arise for them under a contributory scheme. There will need to be close liaison between the Treasury and the Home Office Prison Department on this matter.

In view of the Home Secretary's responsibilities for the pension schemes for the police and fire services, he welcomes the Chancellor's view that the appropriate level of contribution by civil servants should not be considered in isolation from other public service sector schemes for which the Government has responsibility. You will recall that contribution rates in the police and firemen's pension schemes were recently increased significantly.

Copies of this letter go to Brett Bonner and the other recipients of your letter.

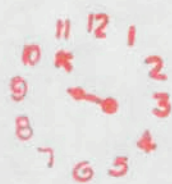
Yours sincerely
Hugh Taylor

H H TAYLOR

Miss M O'Mara

CONFIDENTIAL

1 - SEP 1983





miss (v)

*It seems inevitable
that the general
principles will
have to be discussed*

With the Compliments of
the Private Secretary to
the Minister of State

in Cabinet

before this

*particular aspect
can be agreed*

DEPARTMENT OF HEALTH AND SOCIAL SECURITY

Alexander Fleming House

Elephant and Castle

London, S.E.1.

LM
20/8



DEPARTMENT OF HEALTH AND SOCIAL SECURITY
 Alexander Fleming House, Elephant & Castle, London SE1 6BY
 Telephone 01-407 5522

From the Minister for Health

Miss Margaret O'Mara
 Private Secretary to
 The Chancellor of the Exchequer
 Treasury Chambers
 Parliament Street
 London
 SW1P 3AG

25th August 1983

Dear Margaret,

MAKING THE PCSPS CONTRIBUTORY

In the absence of Mr Fowler, the proposal in your letter of 11 August has been considered by Mr Clarke and Dr Boyson. I have to let you know that both feel this matter needs some collective consideration by Ministers before discussions are opened up with the Civil Service unions. We are of course concerned here from a number of points of view: the implications for other parts of the public sector (in our case, the NHS); the implications for civil service industrial relations; and the implications for the mounting debate on reform of the occupational pensions sector and the problem of the early leaver.

The circulated paper concentrates on the civil service problem: but your letter accepts that this cannot be studied in isolation from other public sector schemes. Ministers do of course understand that the immediate proposal is to open discussion only on "modalities" and structure, and not get into the key issues of effects on contribution and pay. But it seems to them that Ministers should have an opportunity to consider the Government's stance on these issues before discussions are opened up with the unions. The whole issue could have important implications for the NHS and seems likely to have consequences for the Government's approach to wider public sector pay issues which ought to be explored further.

I am copying this to the recipients of your letter.

yours sincerely

ROBIN NAYSMITH
 Private Secretary

26 AUG 1985

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5 6 7 8 9

Civil Service Pay
with W.R.

RF 1



10 DOWNING STREET

Prime Minister

We have fixed a meeting on 5 September to discuss both the approach to the 1984 pay negotiations with the Civil Service and the longer term issues arising out of Megaw.

At present just the Chancellor, Mr Tebbit, Lord Gornie and Robert Armstrong / Peter Grayson have been invited.

Do you want Mr Heseltine and Mr Fowler to attend? They are the other members of MISC 83, the ministerial group studying these matters.

Yes please
RF

WR 23/8



CABINET OFFICE

From the Minister of State

Lord Gowrie

MANAGEMENT AND PERSONNEL OFFICE

Old Admiralty Building

Whitehall

London SW1A 2AZ

Telephone 01-273 4400

Miss M O'Mara
PS/Chancellor of the Exchequer
HM Treasury
Parliament Street
London SW1P 3AG

22 August 1983

Dear Margaret,

MAKING THE PRINCIPAL CIVIL SERVICE PENSION SCHEME CONTRIBUTORY

We have now seen a copy of your letter of ^{MCS?} 11 August to the Private Secretary to the Secretary of State for Employment about the Civil Service Pension Scheme.

Lord Gowrie very much welcomes the Chancellor's proposal to confirm the Government's commitment in principle to a contributory pension scheme and to authorise the opening of negotiations with the Civil Service unions on the terms described. Not only is the reform desirable in itself but, as the Chancellor indicates, it is the way in to much wider reform of pension contributions across the public services - to the potential benefit of the Exchequer.

Two further points. First, the Cabinet Office (MPO) is committed to seeking abolition of the compensation payable to civil servants dismissed on grounds of inefficiency. As such payments are made through the mechanism of the PCSPS, change requires either agreement with the unions or primary legislation. It is inconceivable that the unions would agree to the necessary changes in isolation but they might well be brought to accept them in the context of a broader reform of the PCSPS as a whole. We would wish to seize the opportunity of the new negotiations to achieve this particular objective among others.

The second point is simply to record that the Cabinet Office (MPO) - given its responsibilities among other matters, for retirement and redundancy policy across the Service - has a considerable and direct interest in the policy issues discussed in the MISC 84 paper and in the proposed negotiations with the unions. This interest

/would be best

would be best reflected if our officials could be associated with, and as necessary take part in, those negotiations.

I am copying this letter to the recipients of yours.

Yours sincerely,

P L Cann

P L CANN
Assistant Private Secretary

Lab of Civil Service & Pay + Pensions

Pl 13

22 AUG 1968

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Caxton House Tothill Street London SW1H 9NF

Telephone Direct Line 01-213.....6400.....

Switchboard 01-213 3000

Margaret O'Mara
 Private Secretary to
 the Chancellor of the Exchequer
 HM Treasury
 Great George Street
 LONDON SW1

19 August 1983

Dear Margaret

MAKING THE PRINCIPAL CIVIL SERVICE PENSION SCHEME CONTRIBUTORY

Thank you for your letter of 11 August. My Secretary of State is away next week and will not be able to consider these issues fully by 24 August. Moreover he believes that the question of whether to move to a contributory scheme, and if so how, cannot be readily separated from questions about how the scheme is to be costed and about whether effective pension contributions should be increased. He would therefore prefer to consider the issues raised in your letter when he has had an opportunity to see the Chancellor's forthcoming proposals, which we understand are likely to be discussed in Cabinet on 15 September, about public sector pension policy generally.

He appreciates that this approach may mean that it will not be possible to start discussions with the Civil Service unions until after 15 September. But he believes that this delay would bring with it the important compensating advantage that the Government's broad policy on how the scheme is to be costed and on contribution levels will have been established in advance. In his view these issues are bound to be raised by the unions very quickly.

I am copying this letter to the Private Secretaries to other members of MISC 83 and to Michael Scholar (No 10), David Staff (Lord Chancellor's Department), Roger Bone (FCO), Hugh Taylor (Home Office), Stephen Williams (DES), Derek Hill (NIO), Caroline Brookes (D/Energy), John Wilson (Scottish Office), Judy Roberts (Welsh Office), Roger Bright (DOE), Caroline Varley (DTI), Alex Galloway (Chancellor of the Duchy's Office), Andrew Melville (D/Transport), David Dawson (MAFF) and Richard Hatfield (Cabinet Office).

Yours sincerely
Brett Bonner

BRETT BONNER
 Private Secretary

Civil Service
Pay P+13

2 - AUG 1983

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

11 August 1983

Brett Bonner Esq
Private Secretary to the
Secretary of State for Employment

J 12/8

Dear Brett,

MAKING THE PRINCIPAL CIVIL SERVICE PENSION SCHEME
CONTRIBUTORY

In the debate on the Scott Report on 22 October last year, the Minister of State, Treasury, said that the Government was attracted to the proposal in the Megaw Report on the Determination of Non-Industrial Civil Service Pay (Cmd 8590) that the Principal Civil Service Pension Scheme (PCSPS) should be put on to a contributory basis. I am enclosing a paper by the Official Group on the Megaw Report (MISC 84) which contains proposals on how such a change might be brought about. As you will see, it seeks authority only for the opening of negotiations on methods and leaves aside the important question of what the right employee contribution level should be.

The Chancellor does not believe that the question of the appropriate level of contribution to the PCSPS can be considered in isolation from other public service schemes for which the Government has responsibility. He will therefore shortly be putting proposals to Cabinet on how to carry forward the Manifesto commitment to a continuation of price protection of public sector pensioners "on the basis of realistic pension contributions". But he thinks that it should be possible to discuss with the unions the principle and the means of turning the PCSPS contributory in advance of decisions on the level of contribution, provided it is recognised that such decisions are still necessary.

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The Chancellor would therefore like now to confirm the Government's commitment in principle to a contributory scheme and to authorise the opening of negotiations with the Civil Service unions. He understands that the unions themselves are expecting such an initiative. Thus, unless he hears from colleagues to the contrary by 24 August, he proposes to ask officials here to proceed in conjunction with officials of other Departments as appropriate.

I am copying this letter to the Private Secretaries to other members of MISC 83 and to Michael Scholar (No 10), David Staff (Lord Chancellor's Department), Roger Bone (FCO), Hugh Taylor (Home Office), Stephen Williams (DES), Derek Hill (NIO), Caroline Brookes, (D/Energy), John Wilson (Scottish Office), Judy Roberts (Welsh Office), Roger Bright (DOE), Caroline Varley (DTI), Alex Galloway (Chancellor of the Duchy's Office), Andrew Melville (D/Transport), David Dawson (MAFF) and Richard Hatfield (Cabinet Office).

Your sincerely,

Margaret O'Mara

MISS M O'MARA
Private Secretary

MAKING THE PRINCIPAL CIVIL SERVICE
PENSION SCHEME CONTRIBUTORY

Note by the Chairman

Among its other recommendations the Megaw Committee concluded that

a provided this can be introduced at no additional cost to public funds, the basis by which civil servants contribute to their pensions should be one whereby a direct contribution is made from the pay actually received to cover the whole of the employee's share of pension costs. Both the employee's and employer's share should be publicly declared;

b the Government should make its decision on the appropriate pension contribution rates with the help of an assessment by the Government Actuary on the rate which would be needed in a funded scheme to support civil service benefits.

2 There is of course a long background to this issue (going back at least to the Scott Report and embracing both Ministerial consideration of the work of the Official Committee on the Valuation of Pensions (VP) and the decisions to increase the pension contributions by the police and fire services). The Government's initial position on the Megaw recommendation was expressed to the House of Commons on 22 October 1982 by the Minister of State Treasury Mr Hayhoe who said that the Government were "attracted by the proposal to make the civil service scheme contributory"; that "few would dissent from the proposition that public service pension schemes should be based upon fair contributions from those concerned. In this context the cost of pensions increase must be included as well as the cost of basic pension"; and that "there would be no question of uncovenanted benefits or windfall gains going to civil servants as a

result of a change to a contributory scheme".

3 The Conservative Party Manifesto stated

"In the next Parliament we shall continue to protect retirement pensions and other linked long-term benefits against rising prices. Public sector pensioners will also continue to be protected on the basis of realistic pension contributions".

4 The attached report by the Official Group on the Megaw Report (MISC 84) seeks Ministerial authority for the opening of discussions with the civil service trade unions about the modalities of making the Principal Civil Service Pension Scheme contributory. The discussions will be unlikely to come to a conclusion about the "realistic" level of contribution and any associated offsetting pay increases for many months. As is common with reports of this kind the departments who took part in its preparation have fully reserved the position of their Ministers.

E P KEMP

HM Treasury

6 July 1983

MAKING THE PRINCIPAL CIVIL SERVICE
PENSION SCHEME CONTRIBUTORY

This paper considers the next steps in pursuing the suggestion in the Megaw Report (para 19 of the Summary of Recommendations) that

"Provided this can be introduced at no additional cost to public funds, the basis by which civil servants contribute to their pensions should be one whereby a direct contribution is made from the pay actually received to cover the whole of the employee's share of pension costs. Both employee's and the employer's share should be publicly declared."

2 At the moment civil servants do not make any explicit contribution towards their pensions apart from the $1\frac{1}{2}$ per cent deduction for widows and any payments they make for added years. However, as the Scott Report pointed out, civil servants have been making an "effective contribution" of around 8 per cent of pensionable pay as a result of the pay comparability system which was in operation until 1980. In the debate on 22 October 1982 the Minister of State, Mr Hayhoe, said that much of the earlier misapprehension about civil servants not paying for their pensions had abated as a result of the two reports. He said that nevertheless misunderstandings were almost bound to continue and the Government were therefore attracted by the proposal to make the scheme contributory. Members from all sides of the House generally supported the suggestion, and at a subsequent meeting of the Joint Official and Trade Union Side Committee on Superannuation the Trade Union Side raised no objections in principle.

3 The next step, on the assumption that Ministers agree will be to open discussions with the trade unions on the basis of proposals by the Government, and in the following paragraphs, we suggest how this should be done. Since the principal object is to make the system more overt, we would not be proposing any large scale reform of the level of benefits.

At the end of the day, if a contributory scheme were introduced, the method of financing would be changed, but the individual civil servant ought not to notice much difference. We would not want to propose changes which would interfere with the planned computerisation of the pension awarding process which is at present in train, or incur large scale extra administrative costs. On the contrary we should take the opportunity of introducing simplification where possible, with a view to making the whole system less costly and more efficient.

4 Legislative Powers

Section 1 of the Superannuation Act 1972 empowers the Treasury to "make, maintain, and administer schemes (whether contributory or not)". No further legislation is therefore required to set up a contributory scheme. It could be done by making a scheme amending the existing PCSPS which would then be laid before Parliament under the negative resolution procedure.

5 There are however a small number of civil servants (about 2,200) who have legally enforceable contracts of employment entitling them to rates of pay determined by wages boards or linked to outside analogues who, in the main, are not covered by occupational pension schemes. Because the current rates of pay of these people do not take account of the superannuation cover they enjoy, it might not be legally possible, without their individual consent, to increase their pay to the extent necessary to ensure that contributions could be paid without loss of take-home pay. With this exception, which could be put right when a suitable legislative opportunity occurred, perhaps in a Miscellaneous Provisions Bill, we see no need for general legislation on the PCSPS, and would hope that the basis of the contributory scheme could be agreed with the trade unions, and introduced as an uncontentious matter.

6 Method of Measurement

Most private sector pension schemes, and some in the public sector, are funded. Actuaries determine the amount of money that would be required to meet the liability for future benefits and recommend the rate of contribution which is necessary to achieve this. The split of the contribution rate between employer and employee is then a matter for negotiation. From time to time, usually at intervals of 3 to 5 years, new actuarial assessments are made to ensure that the fund is still solvent. Contribution

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and benefit levels may then have to be reconsidered but, in practice, deficits have normally been financed by increased employer contributions.

7 As far as the PCSPS is concerned, although a funded scheme is the obvious way of making the whole system overt, we recommend strongly against it. One of the principal reasons for funding pensions in the private sector is to ensure security for the superannuation of employees against the bankruptcy of their firm, a point which does not arise with the Government's own employees. To fund existing liabilities would involve an enormous addition to defined public expenditure and cause a major upheaval in capital markets. The unions are likely to press for a funded scheme for they could then demand a formal share of control as trustees and play a part in investment policy, but we propose to refuse this. We propose that the civil service scheme should remain non-funded.

8 Megaw assumed (20 of the Summary) that the Government would make its decision on the appropriate pension contribution rates with the help of an assessment by the Government Actuary of the new entrant rate which would be needed in a funded scheme to support civil service benefits. In assessing the total costs of the scheme under such an arrangement, the Government Actuary would include the costs of index-linking as well as all the other superannuation benefits available under the scheme. This would give similar results to a funded scheme without the difficulties of a real fund.

9 Megaw also recommends (Recommendations 21 and 22) the GA should be required to consult the profession on his assumptions and to submit his arguments and calculations to the scrutiny of the Pay Information Board, and we agree that this should be done, as a further help to making the whole matter more overt.

10 No final decision need be taken at this stage on the method of measuring the costs of the scheme, but we are attracted to the Megaw proposal as a straightforward and economical method, and one which would permit decisions to be taken from time to time on appropriate changes in contribution rates when these were needed to reflect changing circumstances. Although (as mentioned in para 6) the private sector find it difficult to change benefit levels or employee contribution rates, it would be desirable for the PCSPS to take the lead in introducing this practice and for it to be extended to other public service schemes in due course.

11 The choice of a method of measurement does not, of course, imply any decision on methods of financing or on how these should be divided. The Megaw method, would if adopted, concentrate attention on the total costs of benefits, rather than on the index-linked element as such. This would be in line with the Government's policy statement in the debate on 22 October which was widely welcomed

"Much of the public concern about public sector pensions is focused on the cost of index linking and there is understandable resentment at any additional burden upon taxpayers as a result. Few would dissent from the proposition that public sector pension schemes should be based upon fair contributions from those concerned. In this context, the cost of pension increases must be included as well as the cost of the basic pension."

12 In 1981 and early in 1982 Ministers considered the possibility of introducing a special charge for members of public sector schemes to cover the additional cost of pensions increase as compared with uprating arrangements in the private sector. Employee contributions could, however, be assessed to cover both basic benefits and pensions increase costs. Both costs were included in the costs of the police, fire service and Armed Forces schemes, on the basis of which the higher contribution levels for these fast accrual schemes have been determined. Final decisions on the method by which employees contribute towards the cost of pensions increase do not need to be taken at the moment but, in order that discussions with the civil service unions can make progress, it is necessary to make an assumption about how the benefits of the civil service scheme should be measured. We propose that the Government should adopt as a working assumption that the PCSPS should be costed on a basis that includes the cost of pensions increase in the way assumed by the Megaw Report.

13 Non Superannuation Benefits

At the moment, for the sake of convenience, civil service redundancy terms and provision for injury benefits are included in the PCSPS. These payments which are the financial responsibility of the employer raise different issues from superannuation, and it would help the general objective of reducing the scope for misunderstanding if they were to be treated separately in the new arrangements. We recommend that this should be done.

14 Financial Effects

The present scheme is a "terminal salary" scheme with benefits based on length of reckonable service and pensionable pay at the time of leaving. A contributory scheme would be similar but with contributions levied on pensionable pay throughout reckonable service. Since however existing civil servants are deemed to have received reduced rates of pay in the past to take account of the non-contributory nature of the scheme, gross pay will need to be increased before contributions can be levied. If nothing further were done, pensionable pay would therefore be higher and ipso facto attract increased benefits. This would obviously be wrong, and the Minister of State made it clear in the debate that there could be no question of uncovenanted benefits or windfall gains going to civil servants as a result of the change in the method of financing. The object therefore is to devise a package which will ensure either that benefits as a whole are not increased or that any increase in benefits is paid for by increased employee contributions. In practice it is difficult to measure the Exchequer effects precisely, given that the effects of changes are spread over several decades, but the objective should be to ensure that in the early years there will be no increased expenditure (A substantial inflow is much more likely). Furthermore the position of individual members of the scheme is bound to be substantially different from what it would otherwise have been, even if the changes as a whole are broadly neutral.

15 The crucial question will be how the costs should be divided between employer and employee. At present because the information on the 'effective contribution' is several years out of date we no longer have a way of determining precisely what the present employee contribution is. There is of course no objective "right" level of employee contributions. Some comparison with private sector practice will obviously have to feature in any negotiation. This varies considerably from scheme to scheme and over time. In 1975, the average ratio of employee to employer contributions in private sector schemes was about 1 to 3 but, by 1979, it was nearer 1 to 4. Levels of benefits and particularly the availability of pensions increases should be taken into account and there should be no presumption that the civil service should adopt the private sector average. The unions could be made to face up to the fact that there is a choice to be made between the levels of income civil servants wish to enjoy whilst at work and the benefits they want after retirement.

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16 We presume that the Government's objective will be to set the contribution rate at as high a level at least as it was assessed under pay research, and probably higher. Purely for illustration, since these questions do not have to be decided for some time, if we take the cost of the present scheme as 20 per cent of salary, of which $1\frac{1}{2}$ per cent is already met by employees directly through their contributions, the Exchequer would be all square if the employee contribution were raised to $8\frac{1}{2}$ per cent and pay increased by about 6 per cent. (The figure of $8\frac{1}{2}$ per cent is chosen as the "effective contribution" under the old pay research, and the figure of 20 per cent is the Government Actuary's Department rough estimate of the current cost of the scheme, bearing in mind the recent fall in the expected real rate of return on investments.) Such an outcome would however imply a reduction in the take-home pay of civil servants of about 1 per cent which could be represented as an additional contribution towards the 6 per cent increase in benefits which the increase in gross pay would entail.

17 In theory it ought to be possible to separate the questions of pension contributions and corresponding pay increases on the one hand from the more general questions of annual pay determination on the other. However in practice the two are bound to come together in negotiation, and it is probably right that they should. This question too is for later.

18 Other Changes

Although the general objective is not to alter the essentials of the scheme, we should take the opportunity of the change to include a number of lesser reforms intended to improve the scheme as a whole and reduce costs.

19 We should for example try to remove the present differences between the treatment of men and women civil servants which will probably, in any case, have to be removed within a few years as a result of changes in the general law. We would require men and women to pay the same percentage rate of contributions and provide widowers' pensions on the same basis as those now provided for widows. Given that women generally live longer than men, widowers' pensions would be unlikely to be a costly addition, but they would be included as part of the extra costs to be taken into account in assessing the contribution rates. We should not assume that a proposal to treat men and women civil servants equally in this respect will necessarily be welcome to the Trade Union Side.

20 We should also seek to simplify the present calculation of "pensionable pay" to bring it as far into line as possible with actual pay. This will involve going through all the allowances and other emoluments which are at present additional to basic pay, including London Weighting and officially provided accommodation and uniforms, and determining how far they should continue to be pensionable. Here again any changes would be reflected in the final calculation of the costs of the scheme and of the required contribution levels.

21 The Trade Union Side have a number of claims which could also be drawn into the negotiation, although in theory they could be kept separate. They include

- a a move to pensions based on 1/60th of pensionable pay with an option to commute instead of the present 1/80th pension with lump sum;
- b an improvement in the death-in-service benefit which at present is lower than the generality of outside schemes.

The presumption would be that the additional costs of any such improvements to the general level of benefits, if they were to be agreed, should fall entirely on the employee contribution, but we would try to convince the unions that the move to a contributory scheme should not be complicated unnecessarily by including such major changes in the process.

Integration with the State Scheme

22 The civil service scheme is contracted out of the earnings-related additional component element of the State scheme and members do not therefore receive dual benefits under both schemes for the same periods of service. Many schemes in the private sector also have a pension benefit formula which incorporates an adjustment to allow for the fact that retired members will receive the basic or flat-rate State retirement pension. Such an adjustment was included in the civil service and other public service schemes when universal national insurance pension arrangements were introduced in 1948 but the adjustment was not modified to keep pace with subsequent increases in the basic State pension. As a result public service pensions fell to be reduced by only a small part of the basic State pension and even this reduced level of adjustment was dropped in respect of service after April 1980.

23 It would be possible to suggest that PCSPS benefits should again be adjusted to take account of current and future level of the basic State pension implying that contributions would then be lower than would otherwise be the case. This raises however very large questions about the right total income which ought to be provided for the retired and it has important economic and financial implications. Moreover it is a general question which is of concern to all ^{public service} occupational schemes. To raise it in the context of a move to a contributory PCSPS would complicate the issue unmanageably. We should however ensure that nothing is done which might prejudice future decisions on this complex topic.

A Separate Scheme for Industrial Civil Servants

24 The provision of superannuation benefits for industrial civil servants raises different problems from those of non-industrials. There is a case for moving to two schemes, and we recommend that this should be explored with the unions in the context of a move to a contributory scheme.

25 An Annual Report?

Much of the difficulty in recent years has arisen from lack of readily accessible information about the PCSPS and how it is financed. We think it would be useful each year to bring the facts together in an annual report which would give Parliament, the trade unions, and the public, the statistics on levels of benefits, numbers of beneficiaries, costs, contributions and other matters at present scattered in various documents. This report would supplement the information given in Estimates and elsewhere and would not by itself be a formal part of the parliamentary control machinery. In practice it would be akin to a report by trustees on the operation of a pension scheme.

26 Transitional Problems

If pay were to be increased as part of the move to a contributory scheme, civil servants retiring immediately after the date of the change would receive a windfall increase in their superannuation benefits. The contributions paid by civil servants still in service would pay for these in the long run, but it would nevertheless be wrong to allow large windfall gains to occur simply as a result of a change in the method of financing. The windfall could be obviated completely only by providing that benefits in respect of reckonable service before the changeover date should be calculated on a different basis for those payable in respect of later

service, but this would be tantamount to running two separate schemes for as long as existing civil servants remain in the service. We think that the best solution is to provide for a transitional period of say 5 years, during which the increases in pay would be treated as a compensatory allowance and absorbed into pensionable pay on a tapering scale. The extra benefits remaining would be one of the elements to be taken into account in the final calculation of the costs of the scheme and of the contribution rates. There is bound to be an element of rough justice in such a changeover but there is no way of making the transition quickly which does not involve changes to the position of individuals.

27 Inland Revenue rules limit employee contributions to 15 per cent of pay. Civil servants already contribute varying amounts towards the cost of added years and for back-service credit for widows' pensions. A contribution for basic benefits might, therefore, involve a breach of the Inland Revenue limit. But this and other transitional problems can be considered in detail in the discussions with the unions and need not be spelt out in this paper.

28 Discussions with the Trade Unions

If the policy is confirmed, then the next step would be to open discussions with the trade unions on the basis of a paper provided by the Government. The objective would be to try to separate discussions on the modalities of introducing a contributory scheme from the much more difficult questions about possible increases in gross pay and the level of employee contribution. It would not be possible, in any case, to have sensible negotiations on pay and contribution levels until all the other changes had been tentatively agreed and costed so that the pluses and minuses could all be taken into account in the final negotiation. The unions might be unwilling to negotiate on this basis, and might ask for guarantees about the future of index linking, but as the Government made clear in the debate, it is not right to separate questions about the levels of benefits from the methods of financing, and there are real choices to be made about the extent to which employees want to give up current income in the expectation of future benefits. We would seek to convince the unions that it is in their interests to move to a contributory scheme which would tend to remove the misapprehensions of recent years and make their benefits more secure.

29 Timing

If the policy is agreed, we could put a paper to the unions at once. If the unions agreed to concentrate on modalities, then it might be possible to complete discussions in time for a substantive negotiation on numbers to coincide with those on the 1985 pay settlement.

30 Effects on Other Schemes

This paper is concerned solely with the PCSPS and with Megaw since that is the remit of MISC 84 and MISC 83. However whatever is decided for the civil service will have repercussions for the other public service schemes and it is right that this should happen. As the Minister of State said on 22 October, in commending a contributory scheme, 'This will make it much easier to see the link with pay and to compare the position of civil servants with that of other groups.' Civil servants are likely to be unwilling to pay a higher level of contribution for similar benefits than members of other public service schemes. It will be necessary at some stage to link the main public service pension issues together so that the policy announced on 22 October can be taken forward on all fronts, without permitting different groups to get too far out of line with one another. Treasury Ministers will be putting forward proposals on how to do this separately if this paper is approved.

31 Summary of Recommendations

We recommend

- a that discussions should be opened with the civil service trade unions on the modalities of making the civil service pension scheme contributory;
- b the aim should be to devise a structure, but not settle the critical questions of contribution levels and pay uprating until all the other factors had been explored and costed;
- c we should try to avoid large windfall gains and losses although within the scheme as a whole the position of individuals is bound to be altered;
- d the scheme should not be funded. For the purpose of the discussions, we should adopt the Megaw assumption on the method of measurement, namely the Government Actuary's estimate of the new entrant contribution rate necessary to finance the total benefit.

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e the scheme should prepare an Annual Report which will bring together information on benefits, costs, and the split of costs between employer and employee;

f it will be necessary to coordinate progress on the PCSPS contributory scheme with the Government's plans to introduce 'fair' contributions for the other public service schemes with similar benefits, so that the policy described in Parliament on 22 October 1982 makes progress on all fronts.

HM Treasury

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CC N.O.
Notified
5/9

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

5 August 1983

W F S Rickett Esq
10 Downing Street

mas(or)
meeting fixed for 1800 on 5/9.
WJL
8/8

Dear Willie,

MEGAW

In your letter of 2 August you confirmed that the Prime Minister was content that officials should offer civil service union representatives the draft statement attached to the Chancellor's letter of 1 August to the Secretary of State for Employment. A version of the text, revised to reflect Mr Tebbit's reply of 2 August, was accordingly offered to the unions, whose reaction was to prefer no statement at all, and to call off their special Council meeting on 6 August.

The union representatives have not pressed to know the Government's intentions for the 1984 negotiations. In part this is because they expect that the Government will be in a position to let them have views on this, and on wider matters concerning Megaw, in the early autumn. The Chancellor hopes that the Ministerial discussion envisaged for the autumn can be arranged for September.

Copies of this letter go to the Private Secretaries to members of MISC 83, and to Sir Robert Armstrong.

Yours sincerely,
John Kerr

J O KERR
Principal Private Secretary

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5 AUG 1953



COMMUNICATIONS SECTION



Caxton House Tothill Street London SW1H 9NF

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

August 1983

D. Nigel

MEGAW

Thank you for your letter of 1 August. I am glad to see that you are prepared to leave over until the Autumn further consideration of whether data should be collected for 1984; and to make no reference to data collection in the statement.

However, I fear that paragraph 5 of the draft statement might be taken as it stands to imply that data is likely to be collected. What other "arrangements" could the Government have in mind? I would prefer a paragraph which simply said that discussions will be held with the unions about the way the 1984 pay negotiations should be handled. I agree that if the union ask about data collection, officials should say that we have not yet taken a view.

We can leave further discussion of this issue until the Autumn. But I am sure you would agree that neither Geoffrey Howe's statement of 21 December 1982, nor our Election statement recorded in the CCSU pamphlet, in any way commits us to collecting data in advance of "agreeing a new ordered pay determination system".

I am copying this to the Prime Minister, other members of MISC 83, and Sir Robert Armstrong.

Geoffrey Howe

CIVIL SERVICE : Pay
PT 13

-2 AUG 1983

11 12 1 2 3 4
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cc: MOD
DHSS
EMP
Min/State, Privy
Council Office
(Lord Gowrie)
Min/State, HMT
(Mr. Hayhoe)
Mr. E.P. Kemp
(HMT)

CONFIDENTIAL



bc Nick Owen

Bre

10 DOWNING STREET

From the Private Secretary

2 August 1983

MEGAW

The Prime Minister has seen the Chancellor of the Exchequer's letter of 1 August to the Secretary of State for Employment.

She is content with the draft statement attached to his letter. She agrees that the statement should contain no reference to data collection; that Ministers will need to consider this issue in the autumn; and that the unions should be told that the Government have not yet taken a view. She also agrees that it would be a mistake not to offer a statement on the lines of the draft attached to the Chancellor's letter, but that it would not be a disaster if no statement, or no joint statement, could be agreed.

I am copying this letter to the Private Secretaries to members of MISC 83 and to Sir Robert Armstrong.

W.F.S. RICKETT

John Kerr, Esq.,
HM Treasury

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RM



Treasury Chambers, Parliament Street, SW1P 3AG

01-233 3000

The Rt Hon Norman Tebbit MP
Secretary of State for Employment
Caxton House
Tothill Street
London SW1

Note

This is consistent
with what the prime
minister agreed
yesterday.

✓ NO

(with my
note for the file
yesterday)

WM
2/8

1 August 1983

New Secretary of State,

MEGAW

I have been considering the points raised in your letter of 27 July, Michael Scholar's letter of 27 July, and Gray Gowrie's minute of 28 July, on Megaw.

... 2. I enclose a copy of the proposed draft statement, which has been strengthened as the Prime Minister wished. In view of your comments, it does not now refer to the possibility of data collection in the context of the 1984 Civil Service pay negotiation. Please let me know quickly whether you are content with it.

... 3. Since we shall almost certainly have to revert to this issue in the Autumn, I ought perhaps to record now that I doubt whether we will be able in practice to avoid any data collection for next year. We are at present strongly committed to discussions with the unions on the basis of Megaw; I attach for the benefit of colleagues copies of Geoffrey Howe's statement of last December, and an extract from a pamphlet which the CCSU put out just before the Election.

4. The proposals in my minute of 22 July were essentially designed to provide time for us decently to explore the Megaw route in detail in the light of our commitments, so as to consider whether in due course we want a solution based on Megaw; and, if not, to find a way out which honours our pledges. The breathing space would also be used to consider what alternatives we would look for in place of a Megaw-type solution.

5. Given the strength of our commitments I doubt if we shall want - or be able, without a major row - to break off Megaw negotiations before we reach the 1984 negotiations. There are many issues on which discussions on Megaw could in due course collapse (the question of arbitration and override, and the question of the transitional period

/are the most



are the most obvious ones). But for us to break on the principle of data collection on an agreed basis would in my view be a tactical mistake; for it is central to Megaw. Thus I find it hard to see how, consistent with our commitments, we could refuse even to look at this possibility for 1984. I agree with what Gray Gowrie says on this point, and also with his conclusion that the sort of agreed data collection we had in mind would not necessarily be harmful.

6. Of course you are right to point to the wider problems involved in data collection. But I doubt whether what we might want to go for would be as damaging as you imply. The vital point would be to limit the relevance of the data collected to the Civil Service so as to prevent its being prayed in aid by other groups; this could be done, for example, by using job evaluation based on a few key Civil Service grades. Megaw has a number of pointers here which would be helpful. If and when we come to it, my officials would of course consult yours over the details. And of course it had never been my suggestion we should commit ourselves to data collection for 1984 willy-nilly; all the elements would have to be agreed with the unions, and it would not be difficult to fail to reach agreement.

7. All that is for discussion in the Autumn. But meanwhile there are two immediate points on which we need to be clear.

8. First, it is certain that, when later this week, the unions see the sort of statement now proposed, they will ask about our intentions in respect of the 1984 negotiations. I do not think it would be right for officials to say that we rule out data collection for 1984: this would cast doubt on our Megaw bona fides. I suggest they say that we have not yet taken a view.

9. Second, it may be that the unions will ask for changes in the draft statement itself. We shall have to treat any such suggestions on their merits. It would not be a disaster if at the end of the day there were no statement, or at least no joint statement, at all. But I think it would be a mistake not to offer a text.

10. I am copying this to the Prime Minister, other members of MISC 83, and Sir Robert Armstrong. If you, or any of our other colleagues, disagree with the points in paras 8 and 9 above, or with the enclosed text, please let me know by tomorrow night.

Yours sincerely,
J. Lawson

PP. NIGEL LAWSON

(Approved by The Chancellor.)

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DRAFT STATEMENT ON PROGRESS TOWARDS LONGER-TERM ARRANGEMENTS FOR PAY
DETERMINATION FOR NON-INDUSTRIAL CIVIL SERVANTS

The Government and the Council of Civil Service Unions (CCSU) both remain committed to the aim of working out in the light of the Megaw Report a new ordered pay system which will provide, for the longer-term, fair and sensible arrangements for determining pay for non-industrial civil servants.

2. There has been full discussions between the two sides on the possible shape of these new arrangements and useful progress has been made.

3. Any new arrangements must take appropriate account of financial and economic considerations; and enable factors other than information on outside pay to be brought to bear in the negotiations, including in particular recruitment and retention and other labour market factors.

4. A number of important issues have been identified which will need to be resolved before any new longer-term agreement can be reached and on which further discussion is required. The aim of the parties will, however, be to complete by June 1984 the preparation of a full draft agreement to enable the constituent unions of the CCSU to consult their membership before such an agreement is concluded.

5. Discussions will take place between the Government and the CCSU as to what arrangements, consistent with progress towards a longer-term agreement, might be made to provide if necessary an ad hoc basis for the 1984 pay negotiations.

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EXTRACT FROM HOUSE OF COMMONS OFFICIAL REPORT OF 21 DECEMBER 1982

Mr Brown asked the Chancellor of the Exchequer whether he had any further statement to make about the report of the Megaw Inquiry into Civil Service pay?

Chancellor of the Exchequer (Sir Geoffrey Howe): The unions have been informed that the Government is prepared to enter into negotiations with them with a view to agreeing an ordered pay determination system based on the recommendations of the Megaw Report. It is in the nature of an agreement of this kind that both sides have to accept some limitations on their freedom of action and both sides will no doubt seek safeguards from their respective points of view, including in the Government's case safeguards to the public purse and public policy. Nevertheless the Government is prepared to accept, in principle, the broad approach of the Megaw recommendations and to negotiate on them with goodwill and the intention to succeed.



PAY IN THE CIVIL SERVICE AND PUBLIC CORPORATIONS

For almost 25 years up to 1980, Civil Service pay was determined by reference to the objective of "an efficient Civil Service, fairly remunerated". This system of "fair comparisons" was scrapped by the present Government in 1980, since when increases in Civil Service pay have effectively been pre-determined by reference to the percentage amounts allowed for under the cash limits system. The Government and the Civil Service Unions are currently holding "without prejudice" discussions on the report of the Megaw Inquiry, whose central recommendation was a system which should "ensure the Government 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."

Q1. What principles would your Party adopt for determining Civil Service pay?

CONSERVATIVE	LABOUR	LIBERAL	SDP
<p>The Government said last December that it accepted, in principle, the broad approach of the recommendations of the Megaw Report and was prepared to enter into negotiations with the Civil Service Unions with a view to agreeing a new ordered pay determination system based on them. Since then there have been wide-ranging discussions which both sides have approached in a spirit of goodwill. As we say in our Manifesto, "we are committed to fair and reasonable levels of pay for those who work in the public services" and we shall continue to seek fair and sensible arrangements for determining pay in the Civil Service.</p>	<p>We reject the conclusion of the Megaw Inquiry on the Civil Service. We do not regard the principle of the market as a sound basis for determining pay in a career civil service. If people are expected to commit themselves to the public service, they must have an assurance that their earnings will not be subject to the arbitrary whims of passing economic fashion during their careers. The Labour Party endorses the principle of fair comparison in civil service pay. There were difficulties with the old system. In particular, the delay in assessing and implementing a comparability system often led to anomalies. Low pay must be dealt with separately. We shall therefore consider more streamlined procedures, sticking to the same principles.</p>	<p>The Alliance aims would be to consult with the TUC and CBI annually in order to obtain wide acceptance of the range of increase in incomes which the country can afford: this would apply to the private as well as public sector. Procedures for pay determination should be established for the whole public service as well as the Civil Service. External comparisons would play an important role with evidence collected by an independent body. Internal relativities are also important and union agreement should be sought to the use of job evaluation techniques in this context.</p>	<p>The Alliance's "Programme for Government" proposes a fair and systematic approach to pay in the public services. We intend to set up a single independent Assessment Board for public service pay to provide fair comparisons with the rates of pay of comparable groups in the private sector. Our objective will be to ensure that pay in the public services grows at the broadly similar rates to private sector pay.</p>

Q2. Would your Party allow the Civil Service Unions the unilateral right of access to arbitration over pay?

<p>It would not be right if a Government could be forced to arbitration and required to implement the award regardless of circumstances. Megaw concluded that access to arbitration should only be by mutual agreement. This matter is one of the subjects currently being discussed with the Civil Service unions.</p>	<p>Yes.</p>	<p>Yes, provided the unions agree to accept the findings. For its part the Government could only reject them after both Houses of Parliament had passed resolutions to that effect.</p>	<p>An Alliance Government will negotiate arrangements for arbitration with the public service unions and establish agreed procedures which will come into operation in the unlikely event that negotiations on the basis of fair comparisons break down.</p>
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Q3. How would your Party ensure that any cash limits do not pre-empt genuine negotiations on Civil Service pay?

<p>Cash limits are part of the procedure for planning and controlling public expenditure and not an arbitrary limit on Civil Service pay. Cash limits have been reconciled with a negotiated settlement this year and an arbitration award which was fully implemented last year.</p>	<p>The cash limit system will be used by Labour as a system of monitoring expenditure not as a system of hidden pay fixing. The National Economic Assessment will involve Public Sector unions in discussions on public sector volumes of spending in the Autumn for the following financial year. Cash spending control totals will not be set until after pay negotiations in the following six months.</p>	<p>Any cash limits would be fixed in the light of the understanding reached between the Government and the TUC and CBI (see Q1). This should remove the risk of a major difference between the amount provided for in the cash limits and the size of the Civil Service pay increase.</p>	<p>An Alliance Government will not operate cash limits to restrict civil service pay rates. Pay will be determined in accordance with the principles explained above, and cash limits set accordingly.</p>
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Q4. What special steps would your Party take to eliminate low pay in the Civil Service?

<p>The Civil Service cannot ignore pay differentials elsewhere. A Conservative Government could not properly use tax-payer's money deliberately to pay higher rates to civil servants than are paid by other employers. The surest way to improve the position of the lower paid is to increase the country's economic prosperity.</p>	<p>In addition to standard pay negotiations based on comparability we shall also allocate an amount of public expenditure to bring low pay up to a decent level. This will inevitably mean some compression of differentials but will not detract from the general increase in pay.</p>	<p>An Alliance Government should set a good example by its policy on low pay to its own employees. Our Joint Programme includes a series of measures designed to assist the lowest paid.</p>	<p>Again, the pay of different groups in the civil service will be determined by fair comparisons with equivalent private sector groups. We intend to tackle the problems of the lower paid groups by reforming the system of social benefits so that those in greatest need receive substantial supplements to their incomes. For example, under the new "basic benefit" system we are proposing, a working family with two children, currently earning £100 per week, will be around £24 a week better off.</p>
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NOTE FOR THE FILE

MEGAW: NEW PAY ARRANGEMENTS FOR THE NON-INDUSTRIAL CIVIL SERVICE

Because of the Prime Minister's ailment the Ministerial meeting to discuss the Chancellor's minute of 28 July was cancelled.

Since all the Departments concerned were agreed that it was not possible to postpone a statement to the Council of Civil Service Unions until the autumn, I put the following options to the Prime Minister:

a) to allow the Chancellor of the Exchequer to speak to Mr. Tebbit and to seek to persuade him to agree the draft statement attached to the Chancellor's minute of 28 July;

b) to rule in favour of the Employment Secretary and to agree that the draft statement attached to the Chancellor's minute should be issued to the CCSU subject to the deletion of the last two sentences of paragraph 5. The statement would therefore make no reference to the possibility of inviting the OME to collect data on pay movements in the 1983/84 pay round as part of the 1984 negotiations.

I told the Prime Minister that the Department of Employment were advising Mr. Tebbit to resist the Chancellor's approach; that the Cabinet Office advised strongly against the inclusion of the last two sentences of paragraph 5 of the draft statement; and that she herself had earlier objected to any reference to data collection in the context of the 1984 pay negotiations.

The Prime Minister ruled that the statement attached to the Chancellor's minute should be issued to the Council of Civil Service Unions subject to the deletion of the last two sentences of paragraph 5. She commented that the possibility of inviting the OME to collect data on pay movements could always be introduced at a later stage in the negotiations.

I subsequently informed the Chancellor's office and Peter Gregson of the Prime Minister's decision.

WR

1 August 1983

CONFIDENTIAL



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

PRIME MINISTER

MEGAW: NEW PAY ARRANGEMENTS FOR THE NON-INDUSTRIAL
CIVIL SERVICE

Michael Scholar's letter of 27 July records our talk about my minute of 22 July. Having thought further about what you said, it now seems to me that we really need an early meeting with those colleagues most concerned. We need to be clear whether we want to go on down the Megaw road, and if so how far. And if we want to get onto a different track, we need to decide how to make the switch.

2. I hope that a meeting can be arranged soon. I would be happy to circulate a further note on the points it might address. Meanwhile, the meeting of the Council of Civil Service Unions has been postponed from 2 August to 5 August, but we ought to say something to them before then.

3. The most urgent issue for us to consider is the one raised in Norman Tebbit's letter of 27 July. I take his points, but we need to decide whether we could in fact do nothing about data collection for the 1984 negotiations without being accused of going back on our commitment to negotiate on the basis of Megaw - of which some kind of data collection was a central part. (I mentioned Geoffrey Howe's statement last December, but I also have in mind the repetition of it in the Central Office contribution to the attached leaflet which the CCSU put out during the Election campaign.)

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4. As we agreed, I have had further work done on the draft statement which was enclosed with my minute of 22 July. The attached new version plays up the need to take into account affordability, market forces, etc. and omits the detail in paragraph 2 of the original version. I also enclose a brief note showing officials' thinking about data collection in respect of the 1984 pay negotiations. Both texts might be worth circulating before the proposed meeting, though I would hope that it would focus on the substantive issues, as well as the terms of the statement.

5. A copy of this minute goes to Sir Robert Armstrong.

John Kew,

PP.

N.L.

28 July 1983

(Approved by the
Chancellor.)

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DRAFT STATEMENT ON PROGRESS TOWARDS LONGER-TERM ARRANGEMENTS
FOR PAY DETERMINATION FOR NON-INDUSTRIAL CIVIL SERVANTS

The Government and the Council of Civil Service Unions both remain committed to the aim of working out in the light of the Megaw Report a new ordered pay system which will provide, for the longer-term, fair and sensible arrangements for determining pay for non-industrial civil servants.

2. There have been full discussions between the two sides on the possible shape of these new arrangements and useful progress has been made.

3. Any new arrangements must take appropriate account of financial and economic considerations; and enable factors other than information on outside pay to be brought to bear in the negotiations, including in particular recruitment and retention and other labour market factors.

4. A number of important issues have been identified which will need to be resolved before any new longer-term agreement can be reached and on which further discussion is required. It is clear that it will not be possible to settle all these matters in time for a new agreement to be brought into effect for the 1984 pay negotiations. The aim of the parties will, however, be to complete by June 1984 the preparation of a full draft agreement to enable the constituent unions of the CCSU to consult their membership before such an agreement is concluded.

5. The Government and the CCSU have considered what arrangements might meanwhile be made, consistent with progress towards a longer-term agreement, to provide a framework on an ad hoc basis for the 1984 negotiations. The factors to be taken into account in these negotiations will, in line with the recommendations in the Megaw Report, include the position on recruitment and retention in the Civil Service, the cost of any prospective settlement and the general economic background to the negotiations. In addition, it is proposed to explore the possibility of inviting the Office of Manpower

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Economics (OME) to collect on an agreed basis data on pay movements in the 1983/84 pay round which can inform the 1984 pay negotiations. The basis on which this might be done will be the subject of further discussions between the Government and the CCSU.

6. In the event of a negotiated settlement not being possible, the question of recourse to arbitration before the Civil Service Arbitration Tribunal and the basis on which this might take place will be discussed at the time between the two parties.

7. Discussions will continue between the two sides on the detailed arrangements for the framework of the 1984 pay negotiations and on the content of a full procedural agreement covering the longer-term position.

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DATA COLLECTION FOR 1984 PAY NEGOTIATIONS

The way in which the Office of Manpower Economics (OME) might set about collecting data on pay movements to inform (but not constrain) the 1984 pay negotiations would need to be agreed beforehand with the unions. Ministers would thus have to decide what they wanted; if no agreement could be reached there would be no data collection.

2. OME would be likely to collect data by approaching individual private sector firms directly for information, although some use might be made of published data. The period covered would be say August 1983 to March 1984.

3. Decisions and agreement would be needed on a number of points. These would include (a) the appropriate balance between the different sectors of the economy: manufacturing, service industries, financial sector etc, (b) the geographical spread, and the spread in terms of size, of the firms to be contacted; and (c) the extent to which separate data should be collected in respect of settlements at different earnings levels within firms.

4. Data collection would be limited to what would be needed for the 1984 Civil Service pay negotiations, and tailored to this end. Agreement would be needed on the extent to which data collected would be made public.

5. The data for 1984 would be concerned with pay movements only, and not with pay levels. OME would gather information on changes in basic pay rates only. On past form, changes in bonuses, overtime, etc are a relatively small and stable element in earnings. Outside changes in hours and leave would also be left out of the count. All information would relate to changes in non-manual pay rates.

6. A survey of pay levels would necessarily be a more complex exercise and would need to take account of factors such as changes in bonuses, overtime, hours and leave etc. Such a survey is not

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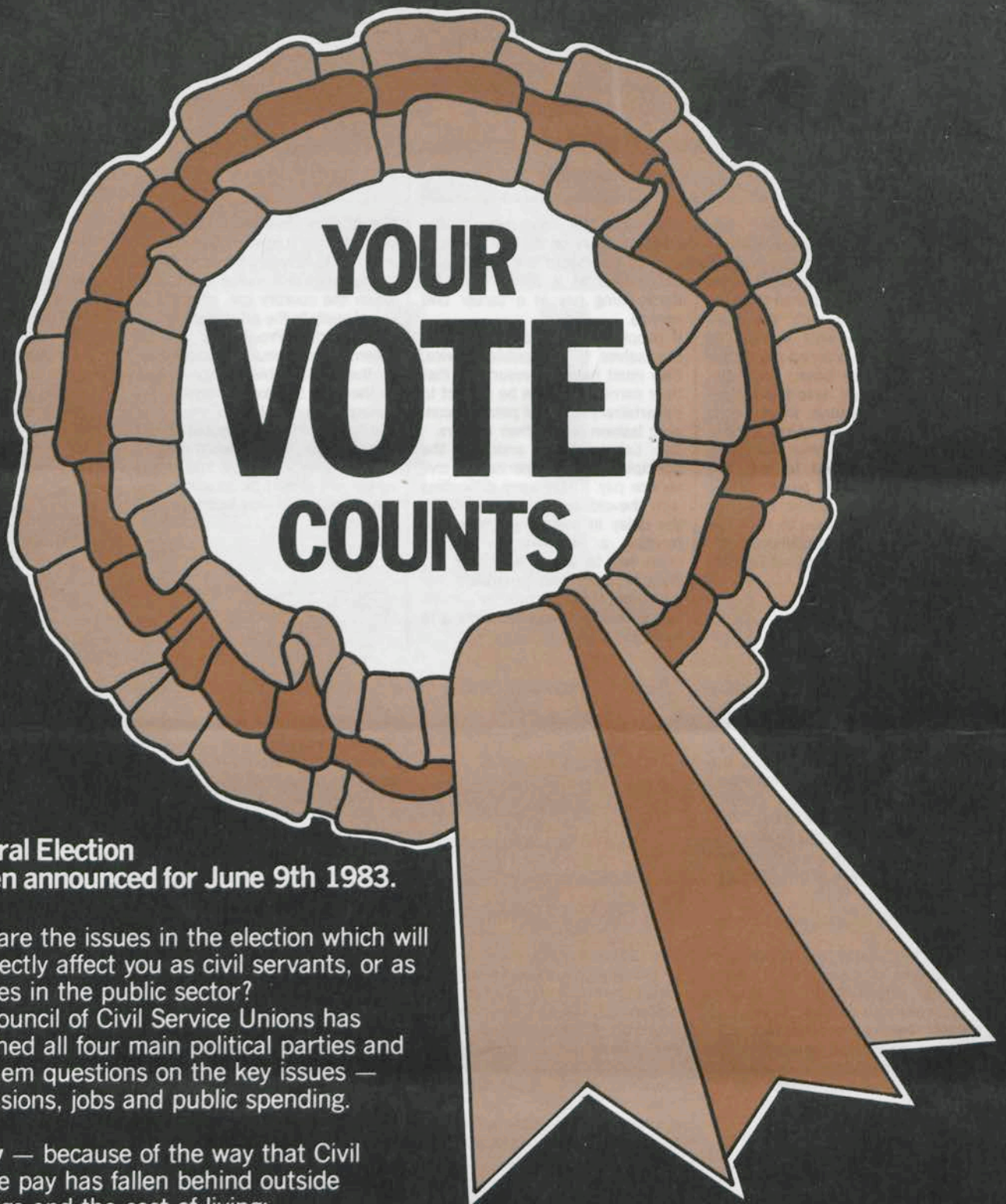
proposed for 1984, but of course if it were looked for in some future year the same need for agreed ground rules would apply.

7. One point for consideration and agreement is whether the OMEs work for 1984 should in some way be overseen or supervised by a "wise man" to ensure that the ground rules were respected.

8. The 1984 arrangements would set no necessary precedent for negotiations in later years.

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COUNCIL OF CIVIL SERVICE UNIONS



**A General Election
has been announced for June 9th 1983.**

What are the issues in the election which will most directly affect you as civil servants, or as employees in the public sector?

The Council of Civil Service Unions has approached all four main political parties and asked them questions on the key issues — pay, pensions, jobs and public spending.

- ★ **on pay** — because of the way that Civil Service pay has fallen behind outside earnings and the cost of living;
- ★ **on pensions** — because index-linking is under attack;
- ★ **on jobs** — because they have been cut by 100,000 and further cuts are envisaged;
- ★ **on public spending** — because it is being cut as a deliberate act of policy, and levels of public spending affect pay and jobs: they also crucially affect service to the public.

In this leaflet we reproduce the parties' replies. None of the Civil Service Unions is affiliated to a political party, and we are not making a recommendation about how you should vote.

But we do think that all our members, in both the Civil Service and the public sector, are entitled to know where the political parties stand on some of the most important issues affecting them.



PAY IN THE CIVIL SERVICE AND PUBLIC CORPORATIONS

For almost 25 years up to 1980, Civil Service pay was determined by reference to the objective of "an efficient Civil Service, fairly remunerated". This system of "fair comparisons" was scrapped by the present Government in 1980, since when increases in Civil Service pay have effectively been pre-determined by reference to the percentage amounts allowed for under the cash limits system. The Government and the Civil Service Unions are currently holding "without prejudice" discussions on the report of the Megaw Inquiry, whose central recommendation was a system which should "ensure the Government 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."

Q1. What principles would your Party adopt for determining Civil Service pay?

CONSERVATIVE

The Government said last December that it accepted, in principle, the broad approach of the recommendations of the Megaw Report and was prepared to enter into negotiations with the Civil Service Unions with a view to agreeing a new ordered pay determination system based on them. Since then there have been wide-ranging discussions which both sides have approached in a spirit of goodwill. As we say in our Manifesto, "we are committed to fair and reasonable levels of pay for those who work in the public services" and we shall continue to seek fair and sensible arrangements for determining pay in the Civil Service.

LABOUR

We reject the conclusion of the Megaw Inquiry on the Civil Service. We do not regard the principle of the market as a sound basis for determining pay in a career civil service.

If people are expected to commit themselves to the public service, they must have an assurance that their earnings will not be subject to the arbitrary whims of passing economic fashion during their careers.

The Labour Party endorses the principle of fair comparison in civil service pay. There were difficulties with the old system. In particular, the delay in assessing and implementing a comparability system often led to anomalies. Low pay must be dealt with separately. We shall therefore consider more streamlined procedures, sticking to the same principles.

LIBERAL

The Alliance aims would be to consult with the TUC and CBI annually in order to obtain wide acceptance of the range of increase in incomes which the country can afford: this would apply to the private as well as public sector. Procedures for pay determination should be established for the whole public service as well as the Civil Service. External comparisons would play an important role with evidence collected by an independent body. Internal relativities are also important and union agreement should be sought to the use of job evaluation techniques in this context.

SDP

The Alliance's "Programme for Government" proposes a fair and systematic approach to pay in the public services. We intend to set up a single independent Assessment Board for public service pay to provide fair comparisons with the rates of pay of comparable groups in the private sector. Our objective will be to ensure that pay in the public services grows at the broadly similar rates to private sector pay.

Q2. Would your Party allow the Civil Service Unions the unilateral right of access to arbitration over pay?

It would not be right if a Government could be forced to arbitration and required to implement the award regardless of circumstances. Megaw concluded that access to arbitration should only be by mutual agreement. This matter is one of the subjects currently being discussed with the Civil Service unions.

Yes.

Yes, provided the unions agree to accept the findings. For its part the Government could only reject them after both Houses of Parliament had passed resolutions to that effect.

An Alliance Government will negotiate arrangements for arbitration with the public service unions and establish agreed procedures which will come into operation in the unlikely event that negotiations on the basis of fair comparisons break down.

Q3. How would your Party ensure that any cash limits do not pre-empt genuine negotiations on Civil Service pay?

Cash limits are part of the procedure for planning and controlling public expenditure and not an arbitrary limit on Civil Service pay. Cash limits have been reconciled with a negotiated settlement this year and an arbitration award which was fully implemented last year.

The cash limit system will be used by Labour as a system of monitoring expenditure not as a system of hidden pay fixing. The National Economic Assessment will involve Public Sector unions in discussions on public sector volumes of spending in the Autumn for the following financial year. Cash spending control totals will not be set until after pay negotiations in the following six months.

Any cash limits would be fixed in the light of the understanding reached between the Government and the TUC and CBI (see Q1). This should remove the risk of a major difference between the amount provided for in the cash limits and the size of the Civil Service pay increase.

An Alliance Government will not operate cash limits to restrict civil service pay rates. Pay will be determined in accordance with the principles explained above, and cash limits set accordingly.

Q4. What special steps would your Party take to eliminate low pay in the Civil Service?

The Civil Service cannot ignore pay differentials elsewhere. A Conservative Government could not properly use tax-payer's money deliberately to pay higher rates to civil servants than are paid by other employers. The surest way to improve the position of the lower paid is to increase the country's economic prosperity.

In addition to standard pay negotiations based on comparability we shall also allocate an amount of public expenditure to bring low pay up to a decent level. This will inevitably mean some compression of differentials but will not detract from the general increase in pay.

An Alliance Government should set a good example by its policy on low pay to its own employees. Our Joint Programme includes a series of measures designed to assist the lowest paid.

Again, the pay of different groups in the civil service will be determined by fair comparisons with equivalent private sector groups. We intend to tackle the problems of the lower paid groups by reforming the system of social benefits so that those in greatest need receive substantial supplements to their incomes. For example, under the new "basic benefit" system we are proposing, a working family with two children, currently earning £100 per week, will be around £24 a week better off.



PUBLIC SERVICE PENSIONS

In 1980, the Government established an inquiry under Sir Bernard Scott into the value of public service pensions. The Scott Inquiry supported the principle of index-linked pensions, and concluded that the level of contributions paid by civil servants at that time was broadly correct.

Q5. Would your Party continue to index-link public service pensions?

CONSERVATIVE

The Conservative Manifesto states: "In the next Parliament, we shall continue to protect retirement pensions and other linked long-term benefits against rising prices. Public sector pensioners will also continue to be protected on the basis of realistic pension contributions".

LABOUR

Yes. We agree with the Scott Inquiry's conclusions that index-linking is a valuable principle which should be extended beyond the civil service — not restricted.

LIBERAL

Yes, and examine ways in which index linking could be extended to private sector pensions.

SDP

Yes.

Q6. What is your Party's policy on the effective level of employee contributions?

Decisions have already been taken on the appropriate employee contribution rates for a number of public sector groups. The other public service schemes will follow. The main aim will be to ensure that employees make a proper contribution to the costs of their pension benefits — the costs of index-linking should not be met by taxpayers generally.

We agree with the conclusion of the Scott Inquiry that the level of effective contribution was about right in 1980.

All public servants should contribute to the cost of their pension benefits to the same extent as employees in the private sector. An independent agency, such as the Government Actuary, should make the necessary calculations.

We have no plans to alter the present arrangements on employee contributions.



CIVIL SERVICE STAFFING

The present Government set itself a target of reducing Civil Service staffing levels by 100,000 up to April 1984. It is currently on target to achieve a total of some 630,000 civil servants by that date, a reduction of roughly 14% since 1979, and it is examining options for further 5% and 10% cuts in every department.

Q7. What is your Party's policy on current and future Civil Service staffing levels?

CONSERVATIVE

The Manifesto pays tribute to the high standards of administration and integrity of the Civil Service. We are on course to achieve our target for Civil Service numbers of around 630,000 by 1 April 1984. Thereafter, our aim will be to match departments' staffing levels to their functions. In doing that we will continue to seek economies by reviewing functions; further increasing efficiency; using new technology; and contracting out work to the private sector when to do so makes good management sense and represents value for money for the taxpayer (see Question 8).

LABOUR

Our plans will involve a major expansion of the civil service as part of the expansion of government activity. In particular, intervention on industrial and economic matters will revive areas of government activity. Our defence policy, while abandoning the use of nuclear weapons, may well involve increased employment in civilian defence staff in order to sustain our role in NATO. There are also important areas of the civil service, for example unemployment benefit offices, which are grossly understaffed as a result of recent cuts.

LIBERAL

Numbers in the Civil Service must be related to the tasks it is asked to perform. Arbitrary reductions in staff may actually mean less efficiency and effectiveness whereas more staff employed for example in the Inland Revenue on investigation would be cost effective in reducing tax evasion and avoidance. Quality of service and equity in administration must not be neglected in an anxiety to cut costs.

SDP

We plan to repair the damage which Mrs. Thatcher's cuts have done to the public services — health, housing, education — and have extensive programmes to raise standards in all these areas. It is unlikely that these objectives can be achieved without some increase in civil service staffing levels.



PRIVATISATION AND CONTRACTING-OUT

As one arm of its policy of reducing Civil Service numbers, the present Government has adopted a programme of privatisation and hiving-off of Civil Service functions. In the wider public sector, various functions have been privatised; the latest project (British Telecom) is nearing completion.

Q8. What is your Party's policy on the privatisation and contracting-out of Civil Service and other public sector functions?

CONSERVATIVE

Privatisation and contracting out are key elements in the Government's economic strategy. They open up areas to the discipline of market forces and promote competition and efficiency and improve the quality of service to the consumer. To this end the Government aims to privatise or contract out services whenever this will improve efficiency and effectiveness.

LABOUR

We opposed the privatisation of civil service activity and will consider ways of reversing the privatisation of the present government where possible.

LIBERAL

The Alliance believes in the mixed economy. Functions should be allocated between the public and private sectors according to which can perform them better. Many public services cannot be run at a profit; trade unions in the public services however should be invited to join with management in developing ways of measuring output and assuring quality of service so as to improve genuine efficiency and effectiveness.

SDP

We do not oppose the privatisation and contracting out of civil service and other public sector functions in principle, but we believe that the onus of proof — in terms of economy and effective delivery of the service in question — is on those who wish to propose any change in present arrangements.

Q9. What is your policy towards the privatisation of British Telecom?

Our aim is that British Telecom will become a private sector company. Reform of the nationalised industries is central to economic recovery. Most people who work in these industries work hard and have a great sense of public service. The Government has gone to great lengths since 1979 to improve the performance of the state sector. Nevertheless few people can now believe that state ownership means better service to the customer. So we shall continue our programme to expose state-owned firms to real competition and we shall transfer more state-owned businesses to independent ownership.

We are totally opposed to the privatisation of British Telecom. Telecommunication development is too important to be left to the market.

British Telecom is a classic case of the need for profitable parts of the enterprise to subsidise the less profitable but essential public service elements.

The Alliance is determined to get away from the incessant and damaging warfare over the ownership of industry and switch the emphasis to how well it performs. Thus we will not privatise British Telecom's main network but will seek alternative means — for example through an Efficiency Audit Commission — of increasing its efficiency and ensuring its future success.



PUBLIC SPENDING

The present Government said in 1979 that "public expenditure is at the heart of Britain's present economic difficulties" (CMND 7746), and it has accordingly attempted to make substantial cuts.

Q10. What is your Party's general attitude towards public spending; do you intend to cut spending further, or restore and expand services, or leave things broadly as they are?

CONSERVATIVE

The Government has promised to maintain a firm control of public spending and borrowing. But careful control of expenditure does not mean savage cuts. The Government's plans provide for public expenditure to remain broadly constant in real terms for the next 3 years. As the economy grows, however, public spending will be reduced as a proportion of national output. The ratio of public expenditure to the gross domestic product is planned to fall from 44 per cent in 1982-83 to 41½ per cent in 1985-86.

LABOUR

Our plans involve a major expansion of public spending. In many areas public spending is the only way to ensure care for those who need it. The public sector should also be active in other areas where the private sector, for whatever reason, is not providing an adequate service. The public sector is a major potential force for job creation in the economy, both within the civil service and throughout the economy. It will be one of the major elements in our plan for jobs.

LIBERAL

The Alliance proposes a £3 billion increase in public sector borrowing with a series of measures designed to get the economy moving again.

SDP

The Alliance is committed to selective increase in public spending and to restoring and expanding public services, both because it is essential to raise standards in health, housing and education following the damage that has been done over the last four years, and because it is obviously sensible to switch the money which is paid to people to do nothing into payment for useful jobs instead.

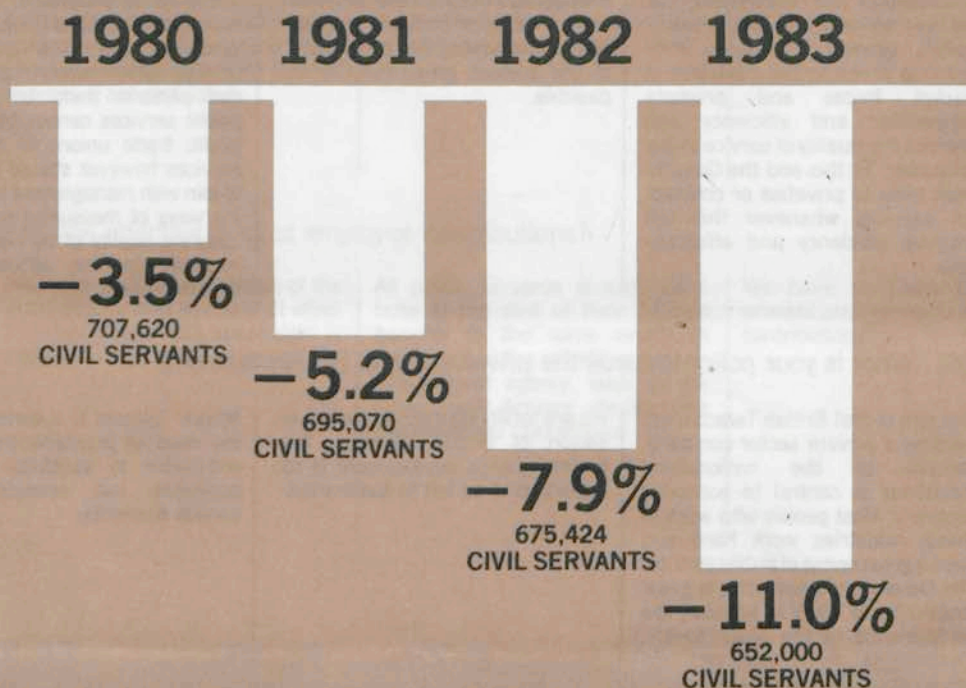


THE LAST 4 YEARS

Jobs: Civil Service jobs have been reduced by 100,000 since 1979. Already 33,000 jobs have been lost under privatisation. There are further threats to British Telecom, to Royal Ordnance Factories, to Companies Registration and to all kinds of common services such as cleaning and catering, typing and reprographics. The Cabinet agreed on 16 December 1982 that "departments should aim to contract out more of their work". Departments have now been asked to report on further cuts.

CUTS IN CIVIL SERVICE JOBS

1979 = 100 NUMBER OF CIVIL SERVANTS: 733,176

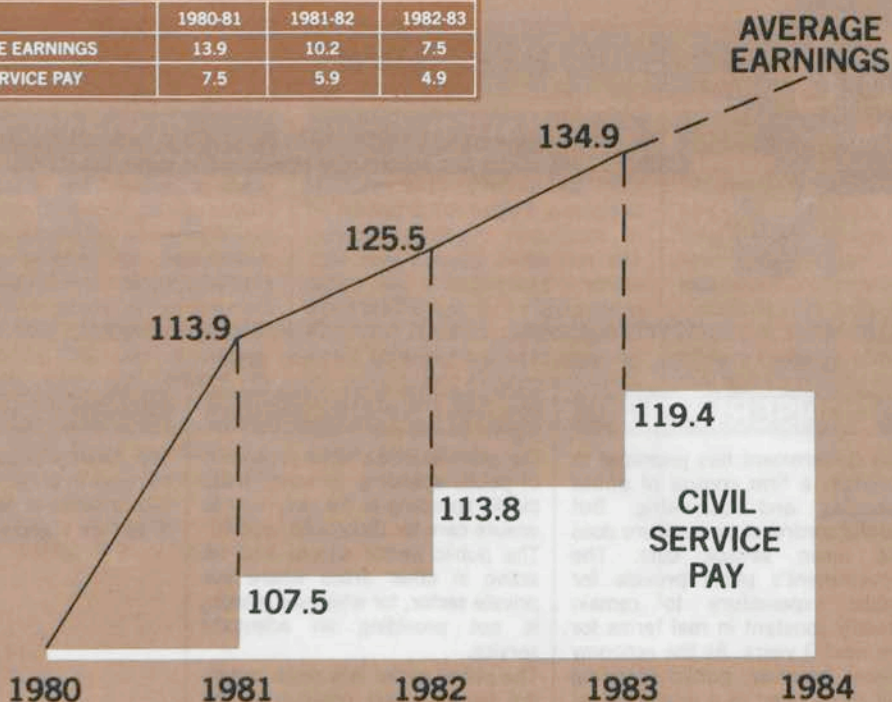


AVERAGE EARNINGS AND CIVIL SERVICE PAY 1980-1983 (1980 = 100)

Pay: Since 1979 Civil Service pay has declined in relation to earnings and to prices.

Low Pay: Two thirds of civil servants earn less than average earnings, one third are below the poverty line. But the Treasury said at arbitration in 1982 that "pay is a matter for the market place and social needs are the province of the social security system".

PERCENTAGE INCREASES			
	1980-81	1981-82	1982-83
AVERAGE EARNINGS	13.9	10.2	7.5
CIVIL SERVICE PAY	7.5	5.9	4.9



Sources: Average earnings: Average Earnings Index (Department of Employment (1983) Average earnings figure: late March figure)



ISSUES FOR ELECTION CANDIDATES



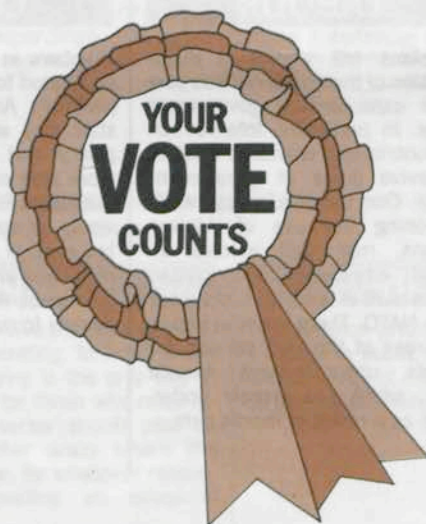
You have now read the parties' answers and know how they stand. No doubt you will also want to seek the views of your own parliamentary candidates about both local and national Civil Service issues.

The three main issues are pay, pensions and jobs. The kinds of questions you might ask your candidate are:

on pay: can civil servants expect fair treatment on pay from your party?

on pensions: do you agree with the Scott Inquiry's conclusion that index-linking of public service pensions should continue and be extended to all pensions?

on jobs: what is your view of Civil Service staffing levels, particularly as they affect standards of service in this constituency?





15.15
2/8

10 DOWNING STREET

PRIME MINISTER

Agree to meeting as proposed
in paragraph 2?

_____ Yes *mk*


Please see Mr. Tebbit's
attached letter (Flag A) and
also the note from Lord Gowrie
(Flag B).

M.C.S.

28 July, 1983

<i>Ch/Ex</i>	<i>Haythorn</i>
<i>NT</i>	<i>Kemp</i>
<i>Gowrie</i>	<i>Peter Gregson</i>
<i>Deputy</i>	<i>RSA if he wants</i>
<i>Forster</i>	

B
CEAO



PRIME MINISTER

MEGAW: NEW PAY ARRANGEMENTS FOR THE NON-INDUSTRIAL CIVIL SERVICE AND THE 1984 PAY NEGOTIATIONS

Nigel Lawson sent me a copy of his minute to you of 22 July on this subject and I have subsequently seen Norman Tebbit's comments set out in his letter of 27 July. TPM

I have a good deal of sympathy with Nigel's proposals. The Government said last December that it accepted, in principle, the broad approach of the recommendations of the Megaw Report and was prepared to enter into negotiations with the Civil Service Unions about them. We repeated this statement in the Election campaign in the course of replying to specific questions put to us by the Council of Civil Service Unions. We also said in our Manifesto that we were "committed to fair and reasonable levels of pay for those who work in the public services" and that we would "continue to seek sensible arrangements for determining pay in the Civil Service.....following the Megaw Report".

Against this background I am sure Nigel is right when he says that "we need to consider what kind of framework for next year's pay negotiations would be consistent with our commitment to work towards a new system based on Megaw". I share his judgement that an external, non-binding, source of data on private sector pay settlements next Spring would provide a convenient bridge to any new system while not committing us to accepting any particular level of pay settlement.

At the same time I recognise Norman's worries. Data collected by OME "on a basis to be agreed beforehand between the two sides, if necessary with someone acceptable to both overseeing its work" would inevitably, and whatever we might say, limit our freedom of action to some extent. But the reality is that our freedom of action is already constrained by the statements made during the Election campaign. If we are still in negotiation next year for a post-Megaw pay system it will be very difficult to refute arguments that the current experience of private sector pay settlements is relevant to the pay settlement we seek with our staff. And the OME and the Department of Employment are not the only sources of such data. The Unions will be able to make all of their arguments using other sources of current information on the pay scene irrespective of whether new information is collected by OME. The difference is, perhaps, that data collected by the OME, with the Civil Service in mind, might be more readily described as unique and irrelevant to other negotiations.

The effective choice for us to make appears to be between:-

- (a) a pay negotiation next year which is directed, by agreement, towards the current pay movement experience of the private sector - and which expressly includes recognition of the importance of arguments about recruitment, retention, affordability and so on, or
- (b) an unconstrained negotiation in which the Unions will be free to argue not only for a Megaw minimum but to indulge all of their higher flights of fancy on "catching up" and to accuse us, into the bargain, of going back on our Election promises.

On balance I prefer course (a) provided that the unions will agree to suitable wording.

I am sending copies of this minute to members of MISC 83 and to Sir Robert Armstrong.

Gey.

LORD GOWRIE
28 July 1983

CIVIL SERVICE: Pay: P-13

20 JUL 1985

11 12 1 2 3
4 5 6 7 8 9
10

COMPTROLLER



Caxton House Tothill Street London SW1H 9NF

Telephone Direct Line 01-213 6400.....

Switchboard 01-213 3000

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

27 July 1983

D. Nigel

MEGAW: NEW PAY ARRANGEMENTS FOR THE NON-INDUSTRIAL CIVIL SERVICE

You copied to me your minute of 22 July to the Prime Minister.

I doubt whether it would be advantageous for 1984 to ask the Office of Manpower Economics to provide the two sides with data about private sector pay movements in the coming round. You do not specify the kind of data you have in mind. But given the formidable technical problems involved, and the time constraints, it must be quite likely that the data would be of a generalised nature relating to all private sector settlements, or perhaps to all private sector settlements for white collar workers, rather than to settlements covering workers whose jobs can be directly compared with Civil Service jobs. Generalised data of this kind would in my view be damaging. It would be authoritative and public. It would provide the unions, both in the Civil Service and elsewhere in the public services, and perhaps more widely, with valuable negotiating information. It is largely on such grounds that we have hitherto consistently declined to make publicly available the settlement data collected by my Department.

Data more specifically related to the jobs of Civil Service comparators would of course be less repercussive. But I still fear that it would help the unions more than it would help us. The unions would be bound to insist that the data be arranged in a way which would reveal the upper and lower quartiles of pay movements; and in my view this would in practice constrain the negotiations. There would be clear expectations that the settlement would not be below the lower quartile; and indeed a settlement demonstrably below this level for 1984 would surely rule out any prospect of the unions agreeing to long term arrangements based on Megaw. Such expectations could well conflict sharply with our negotiating aims.

CONFIDENTIAL



I would like to be clearer about the data you have in mind, and about how you see these risks being avoided or reduced, before going along with what you propose.

I am sending copies of this letter to the Prime Minister, to members of MISC 83, and to Sir Robert Armstrong.

J. N.

- 2 -

CONFIDENTIAL

Civil Service: Bay Pt 13

27 JUL 1983



CONFIDENTIAL

cc. Min State Tsy (Hayhoe)
MOD
DHSS
D/M
Min Arts
CPRS
CO
bc. N.O.



10 DOWNING STREET

From the Private Secretary

27 July 1983

Dear John,

MEGAW: NEW PAY ARRANGEMENTS FOR
THE NON-INDUSTRIAL CIVIL SERVICE

The Prime Minister and the Chancellor discussed this morning the Chancellor's minute of 22 July, to which was attached a draft statement on progress towards longer-term arrangements for pay determination in the non-industrial Civil Service. The Prime Minister said that she disliked the terms in which the statement had been drafted: it gave the impression that the Government had gone straight back to comparability writ large. She hoped that the text could be revised, to give more prominence to the need to take into account in future negotiations affordability, market factors and so on. The Prime Minister also expressed doubts about the proposal to collect on an agreed basis data on pay movements in the 1983/84 pay round.

After discussion, it was agreed that the Chancellor would submit a revised draft, taking account of the Prime Minister's points. He would also, when the information was assembled, let her know the basis on which it was proposed to collect the pay movements data, including the comparators which were envisaged, and whether the comparisons would be made with movements of average earnings, including back-pay and overtime. Meanwhile, his announcement could include, in general terms, the proposal to explore the possibility of collecting such data on an agreed basis.

I am sending copies of this letter to the Private Secretaries to members of MISC 83 and to Sir Robert Armstrong.

Yours sincerely,

Michael Scholer

John Kerr, Esq.,
HM Treasury.

MUS 26/7

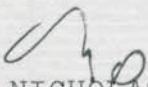
MR. SCHOLAR

MEGAW: ARRANGEMENTS FOR 1984

The Chancellor's proposal in paragraph 7 of his note could create unnecessary difficulties for the Government in 1984 and beyond. He proposes that data on "some private sector pay movements in the 1983/84 pay round should be placed on the negotiating table". By so agreeing the Government would raise the unions' expectations - may even invite them to think - that in 1984 settlements will be within the interquartile range of the data on the table. This will have two disadvantages:

1. The Government has settled at below the lower quartile in the last three rounds (the last settlement was 4.86%; the interquartile range was 5-6.8%). It couldn't succeed repeating this success in 1984 if agreed comparability data was publicly acknowledged. To observe the spirit of Megaw, the Government couldn't open the bidding at below the lower quartile. It would open at this level, and be pulled upwards towards the median.
2. A settlement in 1984 on Megaw lines could win over the waverers on the union side. The Government tactics ought to achieve the reverse, by appearing forthcoming but emphasising those points of principle with which the union leadership have most difficulty. Discussions of actual pay data should be left until last.

I would suggest, therefore, that the second sentence of paragraph 4 of the Chancellor's draft statement be deleted. I have discussed this with Mr. Tebbit's officials: he may also minute on the lines above.


NICHOLAS OWEN
26 July 1983

① cc NO

Prime Minister



1 do not like that.

is mindily straightforward especially

Agree, subject to

colleagues' views,

Treasury Chambers, Parliament Street, SW1P 3AG

01-233 3000

with a new road at other

to the draft

statement?

Jacob's not

PRIME MINISTER

MCS 22/7

MEGAW: NEW PAY ARRANGEMENTS FOR THE NON-INDUSTRIAL CIVIL SERVICE

As you know, we told the Council of Civil Service Unions that we were ready to accept in principle the broad approach of the recommendations of the Megaw Report and to seek agreement with them on a new pay system for the non-industrial Civil Service on that basis. This commitment was re-affirmed at the time of the Election and we must clearly now show ourselves ready to proceed.

2. So far, the discussions between my officials and the unions have been largely exploratory and we have not yet entered into commitments on any points of substance. It is clear that there is a number of difficult issues to be resolved before any agreement can be reached for the longer-term. These include the precise role for the

① proposed "Pay Information Board" (which I think we should rename: I dislike the word 'Board' in particular in this context); the

② arrangements for access by the negotiating parties to the data which it collects; the way in which the data on private sector pay compari-

③ sons should set the framework for the pay negotiations; access to

④ arbitration and powers of Government override; and also the transitional

⑤ arrangements for moving into a new agreement.

3. We cannot settle these points quickly and I shall want to consult colleagues on them in due course. I see no advantage from our point of view in moving any faster than we need towards a new long-term agreement. At the same time we want to keep the



talks with the unions in progress and we do not want to incur blame for any break-down. Fortunately, some at least of the unions want to move forward quite cautiously themselves because their members view the Megaw recommendations with a good deal of suspicion. All the unions now accept that we cannot have a full-scale agreement in place in time for the 1984 pay negotiations. This means that we do not in practice need to complete discussions on it before next summer.

4. This is helpful. But it does mean that we need to consider what kind of framework for next year's pay negotiations would be consistent with our commitment to work towards a new system based on Megaw, while not at this stage involving us in any long-term commitment of either a general or specific kind. In particular, we do not want to set up a Pay Information Board or any similar body until (a) we are quite clear on its role and (b) we are certain that there is a prospect of an overall agreement with the unions which we would regard as satisfactory and into which this piece of machinery could sensibly fit.

5. The CCSU are due to have a full meeting of their Council on 2 August and it would be helpful if the union negotiating team were in a position then to give some indication where matters now stand between us. Otherwise there is a risk that they will be pressed to make faster progress and to bring issues to a head. That would be unhelpful.

6. An interim report could set out briefly the key points which need to be resolved, give an indication of the timetable to which we are now working and sketch out a possible approach to the framework of the 1984 negotiations without, at this stage, committing us firmly to this. Any report which was made would become public and



we have to approach it on that basis. Of itself, I do not think that a public statement in terms acceptable to us would be unhelpful, perhaps the reverse.

7. The main difference between the position this year and that which I have in mind for 1984 would lie in the proposal that some data on private sector pay movements in the 1983/84 round should be placed on the negotiating table. If we were not ready to agree to this, we should effectively have to abandon Megaw here and now.

I envisage that the data would be collected by the OME on a basis to be agreed beforehand between the two sides, if necessary with someone acceptable to both overseeing its work. Unlike Megaw, the data which were collected would, however, only inform, not constrain, the negotiations. We should also make it clear that (consistently with Megaw) other factors, including recruitment, retention and cost, would have to be taken into account in arriving at a settlement.

The unions will press us hard for an advance commitment to access to arbitration in the event of disagreement but I think we must resist this. Overall, a framework on these lines would leave us with more room for manoeuvre than we would have under a full Megaw system and would keep our options open for the future.

8. I attach a draft of the kind of statement on which we might consult the unions next week. It would be helpful to know by Wednesday, 27 July, if you and others are content for me to proceed in this way.

9. I am copying this minute to members of MISC 83 and Sir Robert Armstrong.

Margaret O'Mara

for N.L.

22 July 1983

(approved by the Chancellor

and signed in his absence)

* We are back to
comparability on a
revised scale.

CONFIDENTIAL

DRAFT STATEMENT ON PROGRESS TOWARDS LONGER TERM ARRANGEMENTS
FOR PAY DETERMINATION IN THE NON-INDUSTRIAL CIVIL SERVICE

The Government and the Council of Civil Service Unions both remain committed to the aim of working out in the light of the Megaw Report a new ordered pay system which will provide, for the longer-term, fair and sensible arrangements for determining pay in the non-industrial Civil Service.

2. There have been full discussions between the two sides on the possible shape of these new arrangements and useful progress has been made. A number of important issues have been identified which will need to be resolved before any new long-term agreement can be reached and on which further discussion is required. These include:-

(a) the role of any new body established to collect data for use in negotiations under the agreement;

(b) the procedures for the analysis of the detailed information available to it on pay comparisons and the access which the negotiating parties should have to this material;

(c) how the information both on outside pay movements and on outside levels of pay is to be used to construct a framework for negotiations on Civil Service pay;

(d) the arrangements governing access to the Civil Service Arbitration Tribunal when agreement cannot be reached through negotiation and the safeguards the Government would look for in the operation of any new agreement and over access to arbitration.

? other factors which must be taken into account - equally with those in (a)

3. Any new agreement will need to cover in detail the way in which the new arrangements will operate on these and on other points.

It is clear that it will not be possible to settle all these matters

CONFIDENTIAL

in time for a new agreement to be brought into effect for the 1984 pay negotiations. The aim of the parties will, however, be to complete by June 1984 the preparation of a full draft agreement to enable the constituent unions of the CCSU to consult their membership before such an agreement is concluded.

4. The Government and the CCSU have considered what arrangements might meanwhile be made, consistent with progress towards a longer-term agreement, to provide a framework on an ad hoc basis for the 1984 negotiations. It is proposed, in line with the recommendations in the Megaw Report, to explore the possibility of inviting the Office of Manpower Economics (OME) to collect on an agreed basis data on pay movements in the 1983/84 pay round which can inform the 1984 negotiations. The basis on which this might be done will be the subject of further discussions between the Government and the CCSU.

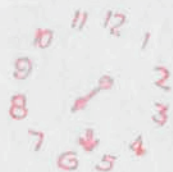
5. In addition to consideration of the data on outside pay movements, either party will be able to advance in the 1984 negotiations any other factor which in its view needs to be taken into account in deciding on new pay rates, including, for example, the position on staffing in the Civil Service and the cost of any prospective settlement.

6. In the event of a negotiated settlement not being possible, the question of recourse to arbitration before the Civil Service Arbitration Tribunal and the basis on which this might take place would be discussed at the time between the two parties.

7. Discussions will continue between the two sides on the detailed arrangements for the framework for the 1984 pay negotiations and on the content of a full procedural agreement covering the longer-term position.

CONFIDENTIAL

22 JUL 1983



SUBJECT

MANAGEMENT IN CONFIDENCE

file

Bre



cc master

10 DOWNING STREET

From the Principal Private Secretary

SIR ROBERT ARMSTRONG

Early Retirement and Merit Pay in the Civil Service

At her meeting with you today, the Prime Minister emphasised the importance which she attaches to improving the incentives for people in the middle and upper ranks of the Civil Service at a time when the reduction of posts has diminished promotion opportunities. The Prime Minister asked you to give priority to bringing forward schemes for merit pay and for early retirement at the highest levels of the Civil Service.

You said that the MPO was working on both these schemes, and that you expected to bring forward a scheme for merit pay by September. But this could not only be applied to a small number of people at the top of the Civil Service. It would have to be a scheme of general application, which could be operated on the basis of objective criteria. As regards early retirement, an obstacle had been the Treasury's attitude towards the cost.

The Prime Minister commented that, in catering for the people she had primarily in mind, an early retirement scheme was perhaps an alternative to merit pay. The cost of such a scheme would be relatively small and she would be prepared to tell the Chancellor of the Exchequer of her view that it had to be met.

BE | The Prime Minister concluded by asking you to give priority to bringing forward proposals on these matters.

E. E. R. BUTLER

18 July 1983

MANAGEMENT IN CONFIDENCE



With the Compliments
of the
Chancellor of the Exchequer's
Private Secretary

*As promised in Mr Kerr's letter
of 31 March 1983*

Treasury Chambers,
Parliament Street,
S.W.1.

5.4.83

C. 110
Copy to per office.

Then for A.F.C. 5/4

An agreement has been reached in the 1983 pay negotiations for the non-industrial Civil Service between the Treasury and the negotiating team representing the Council of Civil Service Unions. The negotiating team, which comprises the General Secretaries of all the relevant Unions, will be recommending its acceptance to the constituent Unions.

2. The present agreement has been reached in the knowledge that separate negotiations are in train designed to lead to a new national pay agreement between the two parties. It is thus an ad hoc settlement reached in an interim period and its terms are entirely without prejudice to, and carry no implications for, the arguments either side may adduce in the negotiations for a new pay agreement or in any future negotiations on the pay of the non-industrial Civil Service.

3. The agreement provides that:

a. The pay of all non-industrial civil servants at Assistant Secretary, or equivalent rank, and below (other than single outside analogue grades) will be increased with effect from 1 April 1983 by $3\frac{1}{2}$ per cent with the exception of those staff who are on the maximum of their existing scales or are paid on flat rates whose pay will be increased with effect from 1 April 1983 by 4 per cent;

b. The pay scales and rates of all non-industrial civil servants at Assistant Secretary, or equivalent rank, and below (other than single outside analogue grades and staff under age 18 on age-related pay scales) will be increased with effect from 1 April 1983 by a further £70 per annum;

c. The rate of London Weighting payable in the inner London zone will be increased with effect from 1 April 1983 to £1,250 per annum;

d. A new intermediate London Weighting zone will be created extending from the present inner zone boundary to a new boundary 10 miles from Charing Cross. It is the intention of both sides to agree the the precise delineation of the new boundary by

30 June 1983. The rate of London Weighting payable in the new intermediate zone will be £700 per annum with effect from 1 October 1983.

e. The rate of London Weighting applicable in the remainder of the existing outer London zone will remain at £500 per annum;

f. The rate of London Weighting payable to entrants to the non-industrial Civil Service who are under age 18 and who are recruited after 1 October 1983 shall be 75 per cent of the applicable adult rate;

g. All proficiency and responsibility allowances will be increased by $4\frac{1}{2}$ per cent with effect from 1 April 1983;

h. Both sides will enter into early discussions aimed at agreeing by 30 June 1983:-

i. progress towards the rationalisation of pay scales at the CO and EO level including the pay scales of equivalent departmental grades, the first stage to be introduced from 1 October 1983;

ii. progress towards the alignment of pay at Assistant Secretary and equivalent levels and at Senior Principal and equivalent levels in the light of the Government's proposals to extend unified grading at these levels with any agreed changes to be implemented with effect from 1 October 1983;

iii. detailed arrangements for the removal of certain anomalies arising from last year's pay changes affecting the pay relativities of some groups of staff on flat rates of pay to take effect from 1 October 1983.

The sum of £1.675 million has been set aside within the cost of this agreement as a whole to cover the cost in 1983/84 of implementing the outcome of these further discussions.

i. Both sides will also enter into early discussions aimed at identifying wider issues of pay structure for consideration in the context of a new national pay agreement; and in particular to identify those urgent issues on which it would be desirable to make progress in 1984.

j. It is agreed that further consideration of the unions' claim for a reduction in the hours of work of the non-industrial Civil Service will be deferred until the 1984 pay negotiations. It is further agreed that both sides will record the position reached in their joint review of the current evidence on hours.

HM Treasury
31 March 1983

Civil Service

Pay & Pensions
Pt 13

APR 1964

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CONFIDENTIAL

Alen



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

31 March 1983

Michael Scholar Esq
10 Downing Street
LONDON SW1

Dear Michael,

In the course of today an agreement has been reached in the 1983 pay negotiations for the non-industrial Civil Service between the Treasury and the negotiating team representing the Council of Civil Service Unions, who will be recommending its acceptance to the constituent Unions. A copy of the press notice which is being issued from the Treasury this afternoon is attached.

...

Copies of the agreement, and of detailed briefing for press officers, are being circulated separately.(not to all).

Copies of this letter and enclosure go to the Private Secretaries to all Cabinet Ministers, and to Sir Robert Armstrong.

Yours ever,
J O Kerr
J O KERR

DRAFT PRESS NOTICE

1983 PAY NEGOTIATIONS FOR NON-INDUSTRIAL CIVIL SERVICE

An agreement has been reached in the 1983 pay negotiations for the non-industrial Civil Service between the Treasury and the negotiating team representing the Council of Civil Service Unions. The negotiating team which comprises the General Secretaries of all the relevant Unions will be recommending its acceptance to the constituent Unions.

The agreement provides for increases in pay from 1 April 1983 of 4 per cent for staff who are on their scale maximum or are paid on flat rates and of $3\frac{1}{2}$ per cent for other staff together with an increase for all adult staff of £70 a year. The agreement also provides for changes in the structure and amounts of London Weighting payments in the coming pay year and for a number of other changes in the pay rates of particular groups of staff.

A copy of the detailed agreement is attached to this notice.

NOTES FOR EDITORS

1. It is estimated that this agreement will increase pay, London Weighting and pay-related allowances by 4.86 per cent on average.
2. The cost of the settlement will be contained within the provision for total Civil Service administrative expenditure in the Public Expenditure White Paper (Cmnd 8789). This covers a wide range of expenditure, and allows for an increase of $3\frac{1}{2}$ per cent in Civil Service pay.
3. The agreement covers staff in grades up to and including Assistant Secretary level.

MFJ

CONFIDENTIAL

31 March 1983

Civil Service Pay

Thank you for your letter of 31 March, to which you attached a draft Treasury press notice about today's agreement.

I have shown this draft to the Prime Minister, who is content with it. I should be grateful if you could let us have the detailed briefing for Press Officers as soon as possible.

MS

John Kerr Esq
HM Treasury.

CONFIDENTIAL

EW

CONFIDENTIAL

de no



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

31 March 1983

Michael Scholar Esq
10 Downing Street
Whitehall
LONDON SW1

Dear Michael,

CIVIL SERVICE PAY

I attach the draft of a Treasury press notice about today's agreement. If you have any comments on it, could I have them quickly? The intention is to agree the notice with the Unions in the negotiations which are still proceeding.

Some aspects of the agreement are not yet final: I cannot therefore yet send you a copy of the text. One will follow later this evening.

The press notice and notes for editors will of course be backed by detailed briefing for press officers. It too will follow later.

Yours sincerely,

John Kerr

J O KERR

DRAFT PRESS NOTICE

1983 PAY NEGOTIATIONS FOR NON-INDUSTRIAL CIVIL SERVICE

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Agreed mt

NOTES FOR EDITORS

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3. The agreement covers staff in grades up to and including Assistant Secretary level.

SECRET

PA



mt

10 DOWNING STREET

From the Private Secretary

Prime Minister

Civil Service Pay

Peter Le Cheminant tells me that he has finished another session with the unions. Mr Mellal will tell the full negotiating team tonight that he is convinced that the government have now made their final offer, as follows:-

- + 3½% for everyone
 - + £70 p.a. for everyone
 - + ½% for those on the max. incremental scale-point
 - + ~~6~~ London Weighting as described
- = 4.85% in aggregate

P.T.O.

Mr McCall will recommend acceptance.

We will know tomorrow if the full negotiating
team will agree.

MCS 30/3

cc: CO

P. Gregson, CO
 P. Le Cheminant, HMT
 Mr. Hayhoe's Office, HMT
 EMP
 LPS
 DHSS
 MOD
 DES



10 DOWNING STREET

From the Private Secretary

30 March 1983

Dear John,

CIVIL SERVICE PAY NEGOTIATIONS

The Prime Minister took a meeting this morning to discuss the Civil Service pay negotiations. The Chancellor of the Exchequer, the Secretaries of State for Education and Science, Defence, Social Services, the Lord Privy Seal, the Secretary of State for Employment, the Minister of State, Treasury, Mr. Peter Le Cheminant and Mr. Peter Gregson were present.

The Chancellor said that following intensive discussions between Treasury officials and the Leaders of the Civil Service white collar unions he had had a meeting with the unions yesterday evening. They had reaffirmed their desire for a negotiated settlement, and expressed recognition of the Government's willingness to contemplate a settlement going some way to meet their concern for the lower paid. They then outlined a settlement which they would be prepared to recommend to their members, including the introduction of an intermediate zone for the London Weighting payment, an overall London Weighting settlement worth 0.15 per cent, deferment until next year of their claim for reduced working hours, and a general settlement worth 5.3 per cent of the total pay bill. This would include a significant element of flat-rate cash increase: they had indicated that their preferred solution at the 5.3 per cent level would be a 3 per cent increase plus £3 a week for all adults.

In discussion it was agreed that 5.3 per cent was too high. Such a settlement would cause great difficulty with the nurses and other National Health Service workers, whose 4½ per cent increase had been described by the Government as an exceptional settlement. This difficulty would be compounded by the fact that the Government was manifestly responsible, as employers, for Civil Service pay. There appeared to be little disposition to strike amongst the Civil Service unions at the present time. The Government welcomed the improved industrial relations within the Civil Service, and wished both to secure the lowest possible settlement, and also to maintain these improved relations. Indeed, 4.9 per cent was also a high figure, particularly in relation to the National Health Service. But the Scottish teachers' settlement at 4.975 per cent and the likelihood that English and Welsh teachers would seek arbitration if they could not match the Scottish figure, together with the 4.8 per cent settlement for local authority manuals, all

/ put very

put very considerable pressure on the Government's present offer to the Civil Service unions of 4.5 per cent. It was noted that it was proposed to finance the settlement strictly within the present 3½ per cent cash limit for the Civil Service. This would be an important point in the presentation of the Civil Service settlement, in contrast with the National Health Service settlement where, because of growing demand and manpower numbers, the cash limit increase could not be set some way below 4½ per cent. There would be advantage in securing a quick settlement with the Civil Service, before the preparations for Civil Service union conferences began after Easter. There were strong arguments for avoiding arbitration in the Civil Service this year.

Summing up the discussion, the Prime Minister said that it was agreed that the Treasury should have authority to offer up to 4.9 per cent, on the basis that this would secure a quick settlement, and provided that the increase in pay would be contained in aggregate within the present cash limit for the Civil Service which was based on the 3½ per cent pay factor. The Treasury should, however, continue to seek a lower settlement than the maximum authorised, and should do their utmost to reach a settlement no higher than 4½ per cent. It would be for the Treasury and the other employing Departments to ensure that the settlement was financed within the existing cash limit in aggregate.

I am copying this letter to the offices of all those present at the meeting. I should be grateful if they would ensure that it is not circulated outside Private Offices and is seen by the smallest number of people who need to be aware of its contents.

Yours sincerely,

Michael Scholar

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



Prime Minister 2011

For the 11.30 a.m.
meeting tomorrow.

FEB

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

29.3.

A handwritten signature or set of initials, possibly 'M', written in dark ink.

PRIME MINISTER

CIVIL SERVICE PAY NEGOTIATIONS

Following intensive discussions with my officials, the leaders of the Civil Service white collar unions asked to see me this evening. They strongly reaffirmed their desire for a negotiated settlement; pointed to the substantial concessions from their original claim which they had made as evidence of this; and expressed recognition of the Government's willingness to contemplate a settlement going some way towards meeting their concern for the lower paid. They then went on to outline the nature of a settlement which they would be prepared to recommend to their members.

2. The details are complex and include some elements of considerable presentational value to us - including acceptance in principle of the introduction of a lower rate of London Weighting payment for juveniles and some shading of the pay increase to be received by juveniles throughout the country. They also indicated their willingness to reach a general London Weighting settlement with us built around our concept of the introduction of a new "intermediate" zone with only modest increases (2½ per cent) in the London Weighting payable in the present inner zone (where the bulk of London civil servants work) and acceptance that there should be no increase in the London Weighting payments beyond the new intermediate zone. They also indicated that they would be prepared, in the context of a general settlement, to defer until next year pursuit of their claim for reduced working hours.

3. In return they proposed a settlement which would be worth (all in) 5.3 per cent of the pay bill and would include a larger element of

/flat rate



flat rate cash increase than we have previously been prepared to contemplate. They did not indicate what their sticking point was on the balance of percentage and cash but said that at their 5.3 level their preferred shape would be 3 per cent plus £3 a week for all adults.

4. I took delivery of their proposals and undertook to consult colleagues about them. I did not enter into substantive discussion or hint at possible areas of compromise.

5. My assessment of the position is that we cannot get them to recommend a settlement at 4½ per cent. I am clear that for our part we should not in any case contemplate going above 5 per cent, among other reasons because of the potential repercussions on other pending settlements like that of the English school teachers. Equally, I do not think that the unions can now be expected to put forward a further modified claim. The onus is now on us to decide how far we are prepared to go in making an offer to them - on a "without prejudice" basis and only made public if it is to be recommended by them to their members.

6. The opportunity for a settlement may be there. We can only find out if it is by putting our best offer on the table for them to accept or reject. I hope we can agree our position on quantum while leaving some flexibility about how the quantum is divided up between percentage and cash sums.

7. The union leaders are clearly anxious to reach an agreement before Easter, for their conference season, which could lead to a hardening of attitudes, follows shortly. So I believe that we need to take our decision tomorrow. If we fail to reach a settlement now we will need to consider our alternative options.

SECRET AND PERSONAL



7. Copies of this minute go to Keith Joseph, Michael Heseltine, Norman Fowler, Janet Young, Norman Tebbit and Barney Hayhoe; and to Sir Robert Armstrong and Mr Gregson at the Cabinet Office.

J. Kew.

PP.

(G.H.)

29 March 1983

PA



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

PRIME MINISTER

Prime Minister ²⁰

The Chancellor mentioned

this - and you

agreed that Mr

Le Cheminant might

aim for a settlement not
above 4½%, together with
minimum tilting towards the

NON-INDUSTRIAL CIVIL SERVICE PAY NEGOTIATIONS

low paid - except
juveniles.

The Ministerial Group on Civil Service Pay Negotiations (MISC 66) met on 22 March under my Chairmanship to review the current state of negotiations with the trade unions. I gave some preliminary indications in my letter of 21 March to the Lord Privy Seal, of which you received a copy.

MUS 23/3

2. Officials have held lengthy discussions with the unions. In accordance with their negotiating authority they offered increases favouring those on the middle and higher points of their pay scales (as in last year's settlement) and worth, on average, 3½ per cent. The offer was made on a 'without prejudice' basis, that is, it is confidential, cannot be quoted before an arbitration tribunal, and can be withdrawn if we so decide.

3. In response, the unions have reduced their claim considerably (though not by quite so much as some press reports have suggested). They have indicated that they would be prepared to recommend to their members a settlement which officials estimate would cost about 5½ per cent, provided that this is weighted so as to favour the lower paid: the specific proposition they have put forward is for an increase of 3 per cent plus £3 a week. It is clear that they are willing to negotiate on both the overall value of the settlement and the precise /shape. But unless



shape. But unless there is some measure of preference for the lower paid, the deal will not command the necessary weighted majority in the Council of Civil Service Unions.

4. The unions have also indicated that they are willing to withdraw their claim for shorter working hours; and that they would be willing to accept that negotiations on such matters as changes in the system of London Weighting and the restructuring of certain salary scales (which MISC 66 approved at its meeting on 15 February) should be settled within a predetermined sum of money and on an agreed timetable. The estimate of 5½ per cent in the previous paragraph, like the other relevant estimates in this minute, includes an allowance of 0.3 per cent for this sum.

5. I must emphasise as strongly as I can that all this has gone on in the strictest confidence. It is essential to preserve this confidence. If it became known that the unions had reduced their claim in the way I have described they would probably be unable to hold their militants. This is what happened with the press reports referred to in paragraph 3 above: the unions have been forced to disown them, even though we have some reason to believe that they accurately described what was the unions' fallback position before the leak took place.

6. MISC 66 took the view that we should do our best to obtain a negotiated settlement which the unions will recommend to their members. Other considerations apart, the natural alternative for the unions is to ask for /arbitration.



arbitration. They have a right of access to arbitration; we should find it hard to refuse it, especially in the light of what we said about arbitration during the water workers' pay dispute; and although any arbitration award would probably be below last year's award of 5.9 per cent on average, the general level of settlements in this year's pay round suggests that it might well not be much less. The average level of settlements in the non-manufacturing private sector is just over 5½ per cent; in the private sector as a whole three-quarters of employees covered by the Department of Employment's confidential surveys have settled between 5 and 6 per cent.

7. We must, of course, take full account of our general strategy for pay, the likely repercussions of any settlement on other pay negotiations, and what can be afforded. An offer costing up to 4½ per cent overall, and probably fractionally more, could be afforded within the aggregate of departmental cash limits. Any settlement above 4½ per cent would however create particular difficulties for the Secretary of State for Social Services, in the context of the National Health Service. MISC 66 therefore took the view that the aim should be to secure a settlement at not more than 4½ per cent. If, as may be the case, the unions are not willing to settle at this level, we shall need to think again about our approach to the negotiations.

8. As for the 'shape' of the offer, the Group agreed that it would be to our tactical advantage to go some way towards the union position and concede some element of favourable treatment for the lower paid. This is of course in principle undesirable, although we did concede
/a small flat-rate



a small flat-rate element in the 1981 settlement. We therefore agreed that our negotiators should do their utmost to minimise the weighting in favour of the low paid. The flat-rate component of any offer should be in the area of £1 a week or less, rather than the £3 a week suggested by the unions. Officials should also ensure that the weighting does not extend to juvenile grades. The unions attach relatively little importance to those grades; and the recruitment position makes it quite unnecessary to offer them above-average increases.

9. It is desirable that we should try to make early progress. The longer the negotiations last, the nearer we draw to the union conferences in May (with the attendant risk of unreasonable pressure being exerted on the union negotiators), and the greater the danger of leaks. MISC 66 therefore consider, subject to your views, that officials should be authorised to negotiate with the unions on the lines I have described. Any offers would, as before, be on a 'without prejudice' basis in order to avoid raising the floor in case there should be arbitration.

10. There are difficult judgements to be made here, and you may wish to discuss them with me.

11. In view of the need to maintain secrecy, I am, with the agreement of the other members of MISC 66, sending a copy of this minute only to Sir Robert Armstrong.

G.H.
23 March, 1983

file

TTP



19

10 DOWNING STREET

From the Private Secretary

23 March 1983

Dear Margaret,

The Prime Minister and the Chancellor had a word this evening about non-industrial civil service pay.

The Chancellor spoke on the lines of his minute to the Prime Minister of today's date (which the Prime Minister had not yet read). The Prime Minister said that she thought that the Scottish teachers settlement, and the likely settlement for teachers in England and Wales suggested that it would be right for Mr. Le Cheminant to seek a settlement not above 4½%. The Prime Minister also said that she would be prepared to accept, in the interests of reaching an agreement without recourse to arbitration, a minimum tilting towards the low paid, providing that it did not apply to juveniles (she added by this she did not just mean 16-year olds). The Prime Minister noted that a settlement on this basis could be met with existing cash limits.

I would be grateful if you would neither photocopy nor circulate this letter outside the Private Office.

Yours sincerely,

Michael Scholar

Miss Margaret O'Mara,
HM Treasury.

BPP

Prime Sec.



PA

4.9.75

10 DOWNING STREET

Prime Minister

3 1/2 b.

5 1/2 b.

Meeting with the Chancellor

Agenda

1. Civil Service + Teachers' pay

see MISC 66 minutes (tag A)

letter from Sir K Joseph (tag B)

letter from Mr Younger (tag C)

Note by Nicholas Owen (tag D)

2. Appointment of William Hague as

a Special Adviser (tag E)

3. Extension of Terry Burns' appointment

4. Replacement for Mr Le Cheminant.

5. Exchange and Money Markets - sitrep.

MCS 22/3



10 DOWNING STREET

Prime Minister

Pay

You will see from these papers
that we are sliding upwards
to 5% on civil service and
teachers' pay. The MISC 66
minutes (flag A) show that the
Chancellor is acquiescing in this.

He plans to minute you, tomorrow.
But if you want to stop the rot you
can take this, and teachers' pay, up
with him tomorrow.

MCS 22/3

SECRET

Prime Minister

cc Mr. Mount

18

MR. SCHOLAR

MS 22/3

CIVIL SERVICE PAY

Discussion in MISC 66 today envisaged a negotiated settlement which would increase average earnings by up to 5%, with a bias towards the lower paid in the shape of a £40-50 per annum for all grades except juveniles. The upper limit of the average increase is $\frac{1}{2}$ % higher than that previously agreed in MISC 66, 1% higher than the Prime Minister's negotiating limit.

The principal questions for the Government are:

- i. Is a settlement of up to 5% the very lowest which can be achieved?
- ii. Can it be presented credibly in view of the NHS settlement?
- iii. Is the degree of bias towards the lower paid acceptable, in view of labour market and management considerations?

The Treasury advise that a negotiated settlement of just under 5% is just possible: it would be in line with the local authority manuals' settlement, and the expected Scottish teachers' settlement. I would judge that a slightly lower negotiated settlement might be possible, but not as low as $4\frac{1}{2}$ %. Arbitration would probably result in a verdict of 5.2-5.3%, which the Government would be under a lot of pressure to accept.

On presentation, it would be difficult for the Government to be seen to settle on its own employees, without a struggle, an increase which is higher than that awarded to the NHS employees after a long and bitter dispute. This point argues for holding to $4\frac{1}{2}$ %, leaving it to the arbitrator to award the higher figure. This could result in a marginally higher settlement but would maintain credibility.

The proposed shape of the settlement would accommodate the unions' preference for a bias in favour of the lower paid but it runs counter to our policy of trying to price young people back into work and could establish a minimum money increase in the economy. The only

/justification

SECRET

SECRET
- 2 -

justification for accepting the unions' view of the shape of the package ($\$x + Y\%$) is that it would enable the Government to secure an acceptable average settlement. This it is not doing. If any bias is justified, it should favour the middle managers in the Civil Service, to whom we are looking to accept greater obligations in coping with disputes and who only benefited from the Budget by less than 1%, compared to the 2-3% of the lower paid.

no.
NICHOLAS OWEN
22 March 1983

SECRET



Prime Minister ²

MUS 22/3

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

21 March 1983

The Rt. Hon. Baroness Young
Lord Privy Seal

Dear Lord Privy Seal,

CIVIL SERVICE PAY

As you know, a meeting of MISC 66 has been arranged for tomorrow morning, 22 March, to take stock of the position we have now reached in the negotiations on non-industrial Civil Service pay before 1983.

At its meeting on 15 February MISC 66 agreed that it was reasonable to aim at a settlement in the range 4-4½ per cent and endorse the package of proposals as an opening offer which would be worth around 3½ per cent in total. The Prime Minister agreed with our conclusions but asked that our negotiators should be instructed not to go beyond 4 per cent in discussion with the Unions.

In the event the main part of our opening offer was made to the Unions on 8 March with the other elements following a few days later. The totality of the offer (costed at 3½ per cent) was made "without prejudice" - a formula which means that the offer is confidential, cannot be quoted against us in any arbitration proceedings and indeed is withdrawable by us if we so decide. Our negotiators have been in close touch with the Unions since the offer was made, both in formal sessions and in more restricted groups. They have not found it necessary to improve on our initial offer but have concentrated instead on persuading the Unions to greater realism and on technicalities designed to reduce the ultimate negotiating process to manageable proportions.

The Unions have cooperated well in this last process and it is clear that they would much prefer an agreed settlement to the alternatives. This does not mean, however, that we are within striking distance of an agreement. There remain significant differences of approach, both on quantum and on the shape of any settlement. The question of "shape" is particularly important to the Unions. They have different ambitions but are united in the belief that they can only sell a settlement to their members (and from our point of view, more importantly, recommend it to them) if it is biased in some way in favour of the lower paid.

I will elaborate further on figures at our meeting but it may be helpful if I set out briefly the elements which it appears might be comprised within an agreed settlement if one could be achieved. The points are:-

- a. A statement recognising that the present settlement was an ad hoc one designed to take us through the period before a new post-Megaw pay agreement could be negotiated. Both sides would say that the agreement was without prejudice to their respective positions. No commitment would be implied.



b. The Unions would agree to withdraw their hours claim while reserving the right to re-present it next year.

c. All of the non-central elements - London Weighting, pay restructuring etc - would be set aside for detailed negotiation (against a timetable) over the coming weeks, but with a clear joint agreement on the sum of money available for these purposes (probably about £10 million or one-quarter of 1 per cent of the pay bill.)

All 3 of these points are valuable to both sides. The first gives the Unions a reason for not pursuing their catching up claim this year and us, if we wish to take it, an excuse for a shape of settlement which departs a little from that which we would prefer to see; the second removes an area of cost uncertainty for us (eg if any arbitrator decided to throw in a little on hours as a make-weight in a final award) while enabling the Unions to avoid putting to the test a claim which is not strong but may get stronger as time passes; and the third enables the Unions to go for a quick settlement on the key issues without being delayed by arguments on detail while enabling us to see from the outset the true cost of any settlement we make.

The questions of quantum and shape of the main part of any settlement are obviously the most difficult, not least because they import substantial questions of public presentation and of possible repercussions. The issues are well known and we can explore them at the meeting.

We will also need to give further thought to the choices before us should it prove impossible to reach agreement. Again, the issues are well known and I need not rehearse them now beyond saying that we may need to take an early decision on the question of arbitration or imposition.

Finally, it is worth noting that there are internal procedural devices open to the CCSU which would enable us, in the right circumstances, to obtain from them a positive recommendation to their members to accept a settlement without the full agreement of all of the Unions concerned.

I am copying this letter to colleagues on MISC 66, to the Prime Minister, to John Sparrow and to Sir Robert Armstrong.

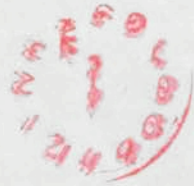
Yours sincerely,

Margaret Channon

for GEOFFREY HOWE

(Approved by the Chancellor and signed in his absence)

Civil Service : Pay & Pensions Pt 13



21 MAR 1962

MR OWEN

cc Mr Mount
Mr Scholar ✓

CIVIL SERVICE PAY

Peter Le Cheminant called a small and informal meeting this afternoon to discuss the next round in the Civil Service pay negotiations. Outside of the formal negotiating meetings, he is having a series of private discussions with the union leaders, and notably with Bill McCall, Alistair Graham and Gerry Gillman.

The position has been reached that the unions have brought down their sights quite considerably on the quantum of the offer, and are now saying that they could defend to their members an "interim settlement" (ie before the new pay system comes into force) related to the going rate, or to the end-year RPI. Peter Le Cheminant interprets this as meaning 6-7%. The unions have three requirements as to the shape of the offer. First, there must be a useful percentage increase for all - none of this zero per cent for those at the bottom of scales; second, there should be a cash sum for all, to help the lower paid; and third, there should be an under-pinning minimum, which is of particular concern to the CPSA, and it would have to be set at about £3.50.

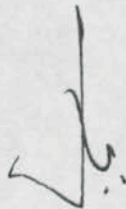
The Treasury recognise that the union's aspirations on the quantum is still much too high; but they are inclined to accept the union's views on the shape. Peter Le Cheminant believes that he could negotiate a settlement around 5% if he had authority to accept this kind of shape.

I said that I thought we could accept the union's first point on the shape: what we were proposing was a range of only about $\frac{1}{2}$ % anyway, and it was not a point of principle for Ministers. But I thought there would be vigorous opposition from No 10 to the other two points, which ran counter to management requirements

and to our view of the labour market and the absence of need to increase wages for young people. And I thought it would be dangerous to associate ourselves with the concept of an interim settlement, if that implied that it was less than it would otherwise have been because next year's settlement will be high.

This was an informal and an exploratory discussion, and no decisions were taken. But I conclude that we will need to keep a close eye on these negotiations because the Treasury will be tempted to give away some kind of slant for the lower paid without getting an adequate trade-off in return for the quantum. On the latter, you will see from our files that the Treasury negotiators have been told that they have authority only up to 4% (Michael Scholar's letter of 24 February), but Peter Le Cheminant of course knows that MISC 66 would have been prepared to go to 4½%.

I am sending a copy of this note to Michael Scholar for information only: we ought not to alarm the Prime Minister at this stage.



14 March 1983



cc D/EMP
LPS
Hayhoe, HMT

Civil Service
HL

15

bcc John Vereker

10 DOWNING STREET

From the Private Secretary

10 March 1983

The 1983 Non-Industrial Civil Service Pay Negotiations: Attitudinal Survey

The Prime Minister has seen the Chancellor's minute of 8 March about the proposed attitudinal survey of civil servants on pay and conditions at work.

The Prime Minister thinks that this would be the wrong moment to commission such a survey, because of the danger of a leak and the fact that the Government's actions are unlikely to be influenced by what the survey reveals. The Prime Minister agrees, however, in general terms that it is desirable to monitor in a systematic way Civil Service attitudes to pay and conditions, and that consideration should be given to doing this after this year's pay settlement.

I am sending copies of this letter to Barnaby Shaw (Department of Employment), Mary Brown (Lord Privy Seal's Office) and Harry Bush (Mr. Hayhoe's Office).

MICHAEL SCHOLAR

Miss Margaret O'Mara,
H.M. Treasury.

SECRET

Sur


 14A
 Prime Minister (2)

 Mus 10/3
 MS

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


PRIME MINISTER

MEGAW

One of the doubts we had about accepting the recommendations of the Megaw Inquiry derived from the possibility that a systematic analysis on Megaw lines of Civil Service and comparative pay levels in the private sector might show the former to have a valid claim for a big "catching-up" pay increase once the new system was in operation. Such information as we had did not point in this direction but the uncertainty was there.

2. In order to resolve the uncertainties, the Treasury has had some work done, on a very private basis, by outside consultants. I thought you would like to know that the results are reassuring. Although the situation varies from grade to grade, the pay levels of the generality of the Civil Service appear to be comfortably within the inter-quartile limits of private sector practice. The conditions of extreme secrecy we had to impose on those doing the work have necessarily limited the accuracy of the results but they are, we think, robust enough to justify the conclusion.

3. In view of the continuing need for secrecy I am copying this minute only to Janet Young, Norman Tebbit and Sir Robert Armstrong.

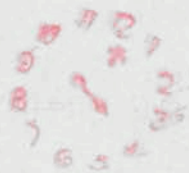


(G.H.)

9 March 1983

CONTRACTOR

110 MAR 1988



Prime Minister ①

MR SCHOLAR

Agree to X ?

Yes NT

MUS 9/3

14

PROPOSED ATTITUDINAL SURVEY OF CIVIL SERVANTS

see his
minute
attached.

I am quite sure that the Prime Minister should not agree to the Chancellor's proposal for a survey within the next two or three weeks of Civil Service attitudes, designed to "reveal the size of (pay) offer staff are likely to regard as reasonable".

This suggestion originates with Mr Tebbit, who put it forward in MISC 66. It is of course part of good management practice, and something the Government would like to encourage in other public sector employers, to have some reasonably systematic way of knowing what employees are feeling on a wide range of issues.

But that is a far cry from the Chancellor's proposal. What is suggested is a one-off covert survey of 500 civil servants, specifically directed at pay, and executed at the period of maximum interest in the annual pay settlement.

Such a proposal has two massive disadvantages:

(i) It is very likely to become known - some of the 500 are almost bound to be active union members who will draw the questionnaire to the attention of local branches, who will demand an explanation - and when it does the Government will be in a difficult position. If it declines to release the results, it will be accused of covering up bad news. If it does release the results, it will be highly embarrassed by the figures, since it is inconceivable that even this small sample of civil servants will show that they regard as a reasonable offer the amount that has already been authorised by MISC 66;

(ii) The survey can serve no conceivable purpose. It is not as if we are uncertain about the level at which we wish to pitch this year's pay offer - that decision has already been taken. What is the point of finding out too late that civil servants want more than they are going

to get? I am sure that the pay side of the Treasury does not intend to use the evidence of the survey as an argument for a higher pay offer, but the temptation to do so will be strong.

X I suggest that, if the Prime Minister agrees, you could reply to the Chancellor's office saying that the Prime Minister thinks that this is entirely the wrong moment to commission such a survey, because of the danger of a leak and the fact that our actions are unlikely to be influenced by what the survey reveals; but that the Prime Minister agrees that in general it is desirable to monitor in a systematic way Civil Service attitudes to pay and conditions, and that consideration should be given to doing this after this year's pay settlement.



9 March 1983

SECRET



SV
13

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

PRIME MINISTER

THE 1983 NON-INDUSTRIAL CIVIL SERVICE PAY NEGOTIATIONS:
ATTITUDINAL SURVEY

In my minute of 4 February reporting the outcome of discussions in the Ministerial Group on Civil Service Pay Negotiations (MISC 66), I mentioned that the Group had recognised that it might prove useful at some stage to have a reasonably accurate indication of the views of staff about a particular pay offer. This might be achieved by taking some form of opinion poll sample of staff.

2. We have done some further work on this within the Treasury. What we have in mind is a general survey on pay and conditions of work which would reveal the size of offer staff are likely to regard as reasonable. Employee surveys of this kind are not unknown; indeed, they can be described as part of modern management practice. That said, there is advantage in keeping the fact confidential while the survey itself is being conducted. Otherwise, there is a danger that answers will be framed with a view to influencing the employers' offer.

3. Opinion Research and Communication are a firm with experience in this area. They have conducted surveys of employee attitudes for British Steel and British Rail, as well as for firms in the private sector. Barney Hayhoe has established that they could do a survey of the kind we have in mind, for under £20,000. They would sample around 500 civil servants.

SECRET

SECRET



4. I believe that it would be useful to go ahead with such a survey, and to do so as soon as possible. Ideally we would want to have the results within the next 2-3 weeks so that they can, if necessary, influence our tactics during negotiations. There is always a risk that the commissioning of the survey will become known, however carefully it is handled, but if so, we should have no difficulty in justifying our position. I believe that Ian MacGregor found the results of his survey (which was not on pay as such, but on the merits of central versus local pay bargaining) so useful that he eventually published it. The fact that British Steel was conducting such a survey did become known before the exercise was completed, but this seems to have been no particular disadvantage.

5. I would, of course, inform MISC 66 of the results of the survey.

6. I am copying this minute to Norman Tebbit and Janet Young, as well as to Barney Hayhoe.

(G.H.)

8 March 1983

SECRET

Civil Service
Part 13
Exam



19 MAR 1953



CONFIDENTIAL



CONFIDENTIAL

MJ



cc CO
MOD
DHSS
LPSO
DM
MOS, HMT (Hayhoe)
Mr le Cheminant
Mr Sparrow, CPRS.

10 DOWNING STREET

From the Private Secretary

7 March 1983

The Megaw Report: Subsidiary Issues
Relating to Pay

The Prime Minister was grateful for the Chancellor's minute of 2 March about MISC 83's views on productivity pay, merit pay, decentralisation of pay bargaining and geographical pay variations.

The Prime Minister is content with MISC 83's recommendations on these questions.

I am sending copies of this letter to the Private Secretaries to members of MISC 83 and to Richard Hatfield (Cabinet Office).

Mrs. Margaret O'Mara
HM Treasury.

M. C. SCHOLAR

CONFIDENTIAL



10 DOWNING STREET

①

Prime Minister

Do you agree to MISC 83's

conclusions — summarised at

X in John Vercker's note?

MUS 4/3

Yes
/
no

MR SCHOLAR

cc Mr Mount

MEGAW: SUBSIDIARY ISSUES

The Chancellor's note of 2 March reports the conclusions of MISC 83 on four issues:

(i) Productivity pay: I am sure the conclusion is right: productivity bargaining is impracticable in the non-industrial Civil Service;

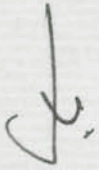
(ii) Merit pay: we must wait and see what Lady Young's proposals are, on the basis of the group of Principal Establishment Officers;

(iii) Decentralisation: I regret the conclusion that decentralisation of pay bargaining is not a realistic option, but I fear it is right until much more far reaching changes are made in the nature of Civil Service financial management and accountability;

(iv) Geographical pay variations: there are indeed practical difficulties, but it is most important to keep this alive, and I think the conclusion is right.

What the Chancellor does not say in his note is that most of this is purely hypothetical until we know whether we are likely to reach an agreement with the unions on a Megaw type system. The Prime Minister should know that negotiations with the unions have been proceeding very slowly indeed; that all the indications are that the unions have failed individually, let alone collectively, to reach coherent conclusions about what they want; and that there has been so far no sign that the unions will be willing to accept the fundamental basis of a Megaw system, which is the constraint of the upper limit to the interquartile range. So with a bit of luck Megaw will founder anyway: that will

not prevent us from pursuing issues which have benefit in their own right, such as merit pay and geographical pay variation.

A handwritten signature, possibly initials, consisting of a vertical line with a small loop at the bottom and a horizontal stroke extending to the right.

3 March 1983



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

2 March 1983

PRIME MINISTER

THE MEGAW REPORT: SUBSIDIARY ISSUES RELATING TO PAY

The Ministerial Group on the Megaw Report (MISC 83) has considered a report by the parallel Official Group (MISC 84), which dealt with four groups of subsidiary recommendations relating to non-industrial Civil Service pay, namely: productivity pay, merit pay, decentralisation of pay bargaining and geographical pay variations. (The Official Group's report was circulated as MISC 83(83)1). This minute is to report to you on MISC 83's views on these issues.

2. On productivity pay the Official Group's report indicates the problems that would be involved with the non-industrial Civil Service and concludes that for the present, productivity bargaining as such should not be introduced, but that co-operation with productivity and efficiency improvements should be one of the factors taken into account in a general way in pay negotiations. MISC 83 endorsed this conclusion.

3. The report does not make any substantive proposals on merit pay. As you know, this is being considered by a group of Principal Establishment Officers under the chairmanship of the Management and Personnel Office. I understand that the Lord Privy Seal will shortly be circulating proposals, for discussion initially in MISC 83, although the final decision would clearly be for Cabinet. However, MISC 83 was firmly of the view that any initiative on merit pay should be handled separately from the 1983 main pay negotiations.

4. MISC 83 did not think that we had yet made sufficient progress in areas such as the Financial Management Initiative to be in a position to consider decentralisation a realistic option now, whether or not we want to pursue this at a later stage. MISC 83 noted that the main employing departments are involved this year in preparing the Government's

CC JV

Prime Minister (1)

Agree these

conditions?

Please see John

Verker's note (attached)

MIS 3/3



pay negotiating position, as they were last year.

5. The areas of the report by officials where the balance of the argument seemed to MISC 83 to be most open to debate is that of introducing greater geographical pay variations (although Megaw came down firmly against this). On the one hand, local pay variations could create real difficulties from a management point of view, particularly if we were to try to use certain public services to give a lead on geographical variations rather than simply following local market conditions. There is an added difficulty that at present there are no adequate data on which to base local pay variations for the non-industrial Civil Service, and there is no guarantee that a locally varied pay system which followed the market would lead to a lower pay bill overall. On the other hand, the economic arguments for greater pay variation by locality are important and indeed underlie much of the regional problem identified in the recent interdepartmental Review of Regional Economic Policy. MISC 83 therefore concluded that the right approach would be to ask the proposed Pay Information Board to look, as one of its early tasks, at the question of establishing an adequate data base on local pay differences. The question whether to proceed could then be considered in the light of their report on this aspect.

6. I should be grateful to know that you are content with MISC 83's recommendations on these questions.

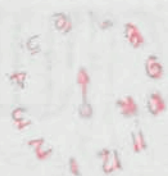
7. I am copying this minute to members of MISC 83 and to Sir Robert Armstrong.

A handwritten signature in black ink, appearing to be 'G.H.' with a stylized flourish.

(G.H.)

2 March 1983

CIVIL SERVICE; Pay and Penmi: A-13



2 - MAR 1983



10 DOWNING STREET

cc HMT (2)
MoD
DHSS
WPSO
DIM
CPRS
CO
bc JV
12 JP
76

From the Private Secretary

24 February 1983

CIVIL SERVICE PAY

The Prime Minister was grateful to the Chancellor for his minute of 17 February about the Government's opening offer in the forthcoming negotiations.

The Prime Minister agrees to the Chancellor's proposals. She has commented that the negotiators should be told that their margin for manoeuvre is very small: only up to 4 per cent.

I am sending copies of this letter to the Private Secretaries to members of MISC 66, to Harry Bush (Office of the Minister of State, HM Treasury), Gerry Spence (CPRS) and Richard Hatfield (Cabinet Office). I would be grateful if you and they would ensure that it is not copied, nor circulated, outside Private Offices.

M. C. SCHOLAR

Miss Margaret O'Mara,
HM Treasury.



10 DOWNING STREET

Prime Minister

①

I'm not sure if you

agree to the Chancellor's

proposals, subject to X in

John Vereker's note?

MCS 21/2

SECRET

Prime Minister ①

17

PRIME MINISTER

CIVIL SERVICE PAY

Please see the Chancellor's minute
(attached).

Agree to his proposals, subject to X?

There are two central judgements in the Chancellor's proposals:
the opening offer, and the likely settlement. I do not think you
need to concern yourself with the additional elements described
in paragraph 7.

HWS18/2

I think the arguments in favour of an opening offer averaging
three-and-a-quarter percent, with quarter percent for the additional
elements, are convincing. Anything lower would simply not be
believed, given the 3½% cash limit.

But I do not think we should at this stage agree to the expectation
of "a settlement in the range of 4-4½ per cent" (paragraph 3), which
means up to 4½%. The Chancellor himself made it clear to Cabinet
yesterday how much importance he attaches to keeping pay down. If
Ministers accept 4½% now, it'll be 5% when the negotiations get
tough. I think the negotiators should be told that their margin
* | for manoeuvre is very small: only up to 4%. We can give them the
extra ½% later if necessary.

J.

18 February 1983



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

PRIME MINISTER

CIVIL SERVICE PAY: THE GOVERNMENT'S OPENING OFFER

At its meeting on 15 February the Ministerial Group on Civil Service Pay Negotiations (MISC 66) considered in detail the Government's opening offer in the 1983 non-industrial Civil Service pay negotiations (MISC 66(83)2nd Meeting). This minute reports the outcome.

2. The main considerations which bear on the decision about the shape of the Government's opening offer are as follows. First, there is the room for manoeuvre within cash limits. For the purposes of cash limits pay and general administrative expenditure are taken together. In the last two financial years Departments generally have been comfortably within their cash limits, despite pay settlements higher than the cash limits pay factor. The position is somewhat more constrained in the present financial year, although taken overall Departments should still be well within the aggregate of their cash limits. For 1983-84 the Treasury forecasts that in aggregate Departments should be able to accommodate a pay settlement of 4½ per cent within the existing cash limits. But one or two large Departments, principally the Department of Health and Social Security, would have difficulty in accommodating a pay increase greater than 3½ per cent.

3. Second, there is the question of what we would regard as an acceptable outcome to the negotiations. MISC 66 agreed that in the light of developments elsewhere it was reasonable to aim at a settlement in the range 4-4½ per cent. It seems unlikely that a

/settlement



settlement below this would be negotiable; and we cannot assume that arbitration would produce it, given the level of settlements elsewhere. So any attempt to settle below this level would almost certainly involve imposition with potentially serious industrial relations consequences.

4. Finally, there is the Government's commitment to hold genuine negotiations this year, which in the view of MISC 66 pointed to an opening offer leaving scope for an increase of ½-1 per cent in negotiation; and there is the general industrial relations situation in Departments, which in the view of MISC 66 strongly suggested that our opening offer should not involve increases below 3 per cent for any significant group of staff.

5. In the light of these considerations the Group concluded on balance that the Government's opening offer should be worth 3½ per cent in total, but with a number of variations which I describe below. Some members of the Group felt that an opening offer closer to 4 per cent, although still below that figure, would increase the chances of a negotiated settlement. But a majority of the Group felt that to open higher than 3½ per cent would give the wrong signals to the Civil Service trades unions and to the staff, and might also have undesirable wider ramifications in view of the way the pay negotiations in the water industry and for the local government manual workers are developing.

6. The Group also agreed that the Government's opening offer on pay should be structured along the lines of the 1982 arbitration award. That is, those at the top of their pay scales would be offered 3½ per cent; those on intermediate pay scale points would be offered 3 per cent; and those at the bottom of their pay scales would be offered 2½ per cent. (Only a relatively small number of staff will receive an offer of 2½ per cent and the recruitment and retention position fully supports an offer on these lines.)

/An offer



An offer structured in this way would be worth in total $3\frac{1}{2}$ per cent on pay. This would leave $\frac{1}{4}$ per cent of the paybill, which would enable us to include a number of desirable additional elements in the offer. These features, which I describe below, are generally worthwhile on their own merits for management reasons. They also provide ample scope for negotiation with the unions, thereby ensuring that the negotiations are prolonged until after the Budget; and different elements will appeal particularly to different staff groups and trades unions, thereby making it more difficult for the trades unions to unite in opposition to our offer.

7. The four additional elements which we have in mind are as follows:-

- a. the inclusion of London Weighting in the main pay negotiations and a modest restructuring of it;
- b. the alignment of pay between different professional groups at the Assistant Secretary and Senior Principal levels;
- c. rationalising age-related pay; and
- d. rationalising pay scales at the Executive Officer and Clerical Officer levels.

8. The most important of these is London Weighting. The decision to abandon the publication of the London Weighting Index means that negotiations on London Weighting can be included in the main pay negotiations. The Group agreed that this would be desirable. We also agreed that there should be a modest restructuring of the present system. What we have in mind is the creation of an intermediate zone between the present inner London and outer London Weighting zones. Views on the merits of this proposal were divided. It would help to ease the management problems faced by some Departments

/who



who have offices just outside the present inner zone boundary. But some members of the Group, particularly the Secretary of State for Defence, felt that it might increase rather than reduce the present management problems in London. On balance the Group agreed that the advantages were greater than the potential disadvantages. But if the trades unions object strongly to the proposed structural changes, we should be ready to withdraw that aspect of the offer.

9. In order to provide a realistic differential between each of the three proposed London Weighting zones, the rate for the new intermediate zone would have to be set at about £750 per annum. This would mean that no increase would be possible in 1983 in the present rate of outer London Weighting (£500), which would anyway be consistent with the present recruitment/retention position. Further consideration will have to be given in due course to what increase might be possible in the rate of inner London Weighting in the light of data on the market position and the likely total cost of the 1983 pay settlement. The Group also agreed that age differentiation should be introduced into London Weighting for those below the age of 20. This would follow the practice already established by local authorities and by the electricity supply and gas industries; and it would also be consistent with our general policies on the pay of young people. The London Weighting rates which the Group had in mind, which might need to be varied slightly .. in negotiation, are annexed to this minute.

10. The other three proposals to which I referred in paragraph 7 above involve detailed changes in pay scales. A simplification of the pay system would be desirable on management grounds; and these proposals would also be important in achieving wider objectives including the introduction of unified grading at the Assistant Secretary and Senior Principal levels as proposed by the Lord Privy Seal in her letter of 21 January and the manpower reductions and organisational changes being sought by the Inland Revenue. The pay increases involved for some staff would generally be modest;

/and



and in some cases pay reductions would result for new recruits and promotees. The only proposal with a significant cost would be the rationalisation of pay scales at the Executive Officer and Clerical Officer levels. This might cost £6.3 million a year in total. For that reason the Group agreed that the Government's opening position should be that the changes here would be phased in over more than one year.

11. The first meeting with the trades unions took place on 11 February when the Government Side merely explored the trades unions' claim. The next meeting is likely to take place next week. This will probably again be exploratory, although our negotiators will probably wish at that stage to give notice of the intention to include in the negotiations the four additional elements to which I referred above. The Government's opening offer on pay is therefore unlikely to be tabled until early in March.

12. I should be grateful to know that you are content that the opening offer should be as I have described.

13. I am sending a copy of this minute to members of MISC 66, to the Minister of State, Treasury (Mr Hayhoe) and to Mr Sparrow and Sir Robert Armstrong.

(G.H.)

17 February 1983



The proposed pattern of London Weighting allowances is as follows:-

£

	<u>Inner zone</u>	<u>Intermediate zone</u>	<u>Outer zone</u>
Age 20+	1250	750	500
Age 19	1000	600	400
Age 18	750	450	300
Age 16/17	500	300	200



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

10 February 1983

Mrs M Brown
Private Secretary to the
Lord Privy Seal
Management and Personnel Office

Dear Mary,

CIVIL SERVICE PAY NEGOTIATIONS

As you know the first meeting with the Civil Service Unions about their pay claim for 1983 takes place tomorrow. The meeting will be exploratory and we shall be making no offers. At the same time we need to get our general reaction to the claim firmly on the record and I enclose for information a copy of the draft Press Notice we have prepared for this purpose. It will be issued as soon as the meeting with the Unions is over - probably around midday. This text will also form the basis of a General Notice to staff which, with the cooperation of departments, we hope to get into the hands of all civil servants as soon as possible after the meeting.

I am copying this letter to the Private Secretaries of the members of MISC 66, Michael Scholar (No.10) and Richard Hatfield.

Yours sincerely,

Margaret O'Mara

MISS M O'MARA
Private Secretary

DRAFT PRESS NOTICE

CIVIL SERVICE PAY NEGOTIATIONS OPEN

A first meeting took place today between representatives of the Council of Civil Service Unions and the Treasury at which the 1983 pay claim for the non-industrial Civil Service was discussed. The representatives of the Unions explained the basis of their claim which is for:-

- a. A minimum wage for all staff aged 18 and over of £85 a week outside the London Weighting zones. At current rates of London Weighting the corresponding figures for the outer London zone (5-18 miles from Charing Cross) would be about £95 a week and for central London about £110 a week;
- b. a flat rate pay increase of £12 a week for all staff earning up to £6264 a year on 'national' salaries (and correspondingly higher figures in the London area);
- c. a 10 per cent increase for all staff receiving national salaries of up to £9758 a year (again with correspondingly higher figures in the London area) coupled with "substantial" increases above this level; and
- d. a reduction in "conditioned" hours of work from the present 41 gross in London and 42 gross elsewhere to 35(net) (equivalent to 40 hours gross) across the country.

2. Commenting on the claim for the Treasury, Peter Le Cheminant, Deputy Secretary in charge of Civil Service pay, said it could only be described as utterly unrealistic. Conceded in full it would cost the taxpayer over £700 million a year and add more than 16 per cent to the wage bill: and this in a situation where the

Civil Service generally had little or no difficulty in recruiting and retaining staff at all levels.

3. Moreover, much of the Unions' claim was founded on arguments about relative wage and price movements since 1980. But these arguments had already been deployed in great detail to the Civil Service Arbitration Tribunal in 1982. In so far as it was sensible to look backwards at all, the starting point could only be the Tribunal's award in 1982 which both sides had accepted. It was relevant that since then the rate of inflation had fallen dramatically. As the Government had frequently emphasised it was in the national interest for pay settlements to be below the level of inflation so as to provide a sound basis for economic recovery.

4. Finally, the Treasury emphasised, the Unions claim largely ignored the report of the Inquiry into Civil Service pay (the Megaw Inquiry) published last summer. This made it clear that there was no single "right" level for Civil Service or any other salaries. The market threw up a wide range of pay for jobs of comparable weight and the appropriate levels of pay in any organisation were the joint product of pay bargaining and the employers' management need to recruit, retain and motivate staff. Both sides were now in negotiation with a view to seeing whether a new pay agreement could be constructed on the basis of the Megaw findings. A successful outcome of those negotiations would provide a new framework of fact within which Civil Service pay bargaining could take place. In the absence of such a framework it was inevitable, as the Unions themselves acknowledged, that individual pay settlements should be reached on an ad hoc basis.

Credit Service : Pay : Pr 13



10 FEB 1963

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FILE

da

SECRET AND PERSONAL



bc JV

10 DOWNING STREET

From the Private Secretary

8 February 1983

Dear Margaret,

The 1983 Non-Industrial Civil Service Pay
Negotiations

The Prime Minister was grateful for the
Chancellor's minute of 4 February, which she
has noted without comment.

I am sending a copy of this letter to the
Private Secretaries to members of MISC 66, to
Harry Bush (Office of the Minister of State,
Treasury), Gerry Spence (CPRS) and Richard
Hatfield (Cabinet Office).

Yours sincerely,

Michael Scholar

Miss Margaret O'Mara,
HM Treasury.

SECRET AND PERSONAL

cc MOD
LPSO
DHSS
D/M
Min/DMT
CPRS
CO

Prime Minister (2) 5
 Please see the
 Chancellor's minute (attached).

MR SCHOLAR

1983 CIVIL SERVICE PAY NEGOTIATIONS

To note.

MUS 7/2

The Chancellor's note of 4 February reports the outcome of the Ministerial discussion of the Official Group's Paper which the Prime Minister has already seen. I do not think there is cause for the Prime Minister to be concerned about the way this is turning out, but there are just two points she might like to note:

(i) There is clearly some debate among Ministers about whether to open at around 3½% or around 4%; it does seem to me that an offer above 3½% leaves very little room for further negotiation, and gives very little hope of a settlement below 4½%. But this judgement should be left for another week or two while we see how pay negotiations in the public utilities develop: I fear it is by no means impossible that the water workers will succeed in establishing a going rate there of around 8%, which could upset the whole apple cart;

(ii) Arbitration is being taken seriously as a possibility, and the Chancellor proposes that some work be done to see what might be the outcome of arbitration within the Megaw interquartile limits. Given the present trend of pay settlements I cannot believe that would be helpful, but we must be prepared for the argument that having urged arbitration in the case of the water workers, the Government cannot refuse it for its own employees.

7 February 1983

Civil Service

4



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

PRIME MINISTER

THE 1983 NON-INDUSTRIAL CIVIL SERVICE PAY NEGOTIATIONS

At its meeting on 2 February the Ministerial Group on Civil Service Pay Negotiations (MISC 66) had a first discussion of the handling of the 1983 non-industrial Civil Service pay negotiations and of the broad shape of the Government's opening offer. No final decisions are required at this stage. But I thought you would want to be told of how our thinking was developing.

2. At this early stage the two main issues for consideration are the timetable for the negotiations and what our tactics should be. On timing, the Group felt that there would be advantage in prolonging the negotiations until after the Budget. It seems unlikely that the negotiations could anyway be concluded before then. The first negotiating meeting, and possibly a subsequent meeting, will be taken up with exploring the details of the unions' claim, which is complex. It seems unlikely that the Government will need to table an opening offer much before the end of this month. It is, of course, not inconceivable that an opportunity might arise for a settlement to be concluded quickly. An early settlement would clearly be in the Government's interests, provided that it could be achieved at an acceptable level. MISC 66 therefore agreed that the Government's negotiators should be

/ready to



ready to respond to such an opportunity.

3. MISC 66 recognised that the Government's tactics would have to be substantially shaped by two main considerations. First, there are the considerations of timing to which I have referred above. These point to an opening offer which would provide substantial scope for negotiation. Second, the trade unions are deeply divided and may well find it impossible to agree to any realistic pay settlement. In these circumstances the possibility cannot be ruled out that the negotiations will end in arbitration or in the imposition of a settlement by the Government. This points to an offer which includes elements which will be attractive to particular staff groups and individual trade unions.

4. For these reasons the Group inclined towards an opening offer consisting essentially of a flat-rate percentage increase in pay (with perhaps some variation at the top and bottom of the scales as in last year's arbitration award to reflect recruitment and retention data) plus a number of additional and relatively cheap elements such as the rationalisation of pay scales, which would in any case be desirable on management grounds, and possibly changes in the system of London Weighting. Officials are preparing detailed proposals on all these elements as a basis for final decisions by Ministers, probably towards the middle of February.

5. The Group had a very preliminary discussion of what the proposed flat-rate percentage increase in pay might be. A decision will not, of course, be required on this aspect for some time. Some members

/of the Group,



of the Group, particularly the Secretary of State for Social Services, argued that it should not be assumed that all departments would find it possible to accommodate within cash limits an increase in pay above the 3½ per cent adopted for the purpose of planning public expenditure. They therefore took the view that the Government's opening offer should be pitched at around 3½ per cent, with a willingness to make some improvement in negotiation provided that it could be accommodated within the existing public expenditure provision. Other members of the Group argued that such an offer, which would be markedly below the current level of pay settlements elsewhere in the public services, would not be regarded as credible by a majority of civil servants and might well prove counter-productive in industrial relations terms. Their view was that the Government's opening offer should be pitched rather higher, say 4 per cent, with only limited room for manoeuvre available thereafter. They argued that it ought to prove possible to accommodate an increase of, say 4½ per cent, within cash limits; pay increases greater than allowed for in calculating the cash limits had proved possible in 1981 and 1982.

6. This is clearly an issue which the Group will wish to consider further in some detail. Meanwhile, officials have been asked to look in greater depth at, and to report on, the level of pay settlement that could be accommodated within the existing cash limits; and on tactics in relation to the level of the opening offer and to what might be the Government's sticking point.

7. In all this, we shall need to have a reasonably clear idea of how the negotiations might be brought

/to a conclusion



to a conclusion. As I have said, the possibility cannot be ruled out that this may be by arbitration or imposition. Neither course would be easy. We rejected imposition as a solution to both the 1981 Civil Service and the 1982 National Health Service (NHS) disputes. Arbitration is much the most attractive way out for the union leadership; and they will probably press hard for it. But it is far from certain to be the right solution for us. It will be important to avoid saying things in the context of the water workers' dispute which can be quoted against us by our own unions: they too have an agreement ostensibly providing unilateral access to arbitration.

8. Nevertheless, we need to do some contingency planning, in case arbitration proves to be the best course. One variant, which the Group will be considering in detail, would be for the outcome of arbitration to be constrained within the inter-quartile range of pay settlements in the private sector, which would reflect the approach advocated by the Megaw Committee. It will probably not be possible to form a reliable view on what the inter-quartile range in the private sector is until March, although present very incomplete indications are that the lower quartile may be a little higher than we would think desirable for the Civil Service pay settlements. To assist in reaching a final view on this the Group agreed that the officials should make arrangements for data on the inter-quartile range to be collected in confidence from a range of sources, including, in particular, the Department of Employment, the Confederation of British Industry and leading management consultants, since no one source of data is likely to prove satisfactory.

/9. Finally,



9. Finally, departments will now be finalising arrangements for quick and effective communication with the staff during the negotiations. It will be important to do at least as well this year as we did in 1982 in relaying accurate information quickly to the staff. The Group also recognised that it might prove useful at some stage to have a reasonably accurate indication of the views of the staff, for example on a particular pay offer. This might best be achieved through taking some form of opinion poll of a sample of staff. Officials are therefore considering urgently how this might be organised, and will if necessary take professional advice in strict confidence.

10. I am sending a copy of this minute to the members of MISC 66, to the Minister of State, Treasury (Mr Hayhoe) and to Mr Sparrow and Sir Robert Armstrong.

G.H.
4 February 1983

Prime Minister
 You will wish to see this
 and the attached paper
 for misc 66.

MR MOUNT

cc Mr Scholar ✓

WM
28/1

Mr Venner

Then you might show
 the PR this note together
 with the misc 66
 paper when it comes
 round?

I think x a good idea.

27/1
 26/1

CIVIL SERVICE PAY NEGOTIATIONS

Oh no!

The Treasury are at odds among themselves over their approach to this year's Civil Service pay negotiations. As you know from my earlier note, those in the Treasury responsible for negotiating with the unions have been content to contemplate a settlement up to 4½%, and the paper prepared for today's meeting of MISC 67 reflected that. The other side of the Treasury, ie those with whom I normally deal on pay in the economy generally, were being kept in the dark about this until I had a word with Alan Bailey before this afternoon's meeting. As a result they produced a representative who rather foolishly attempted to argue for an "exemplary settlement", ie in the 2-3% range. MISC 67, which is stacked with employing departments, is definitely not the place to argue that civil servants should set an example; and Peter Le Cheminant played his trump card by saying that he had reason to suppose that Treasury Ministers were content with his paper.

I will not trouble you with the detailed papers, because the bulk of them are concerned with various minor issues designed to give the negotiators something to talk about; they will go to MISC 66 (under the Chancellor's Chairmanship) on 2 February, and I have little doubt that a policy of opening the negotiations around 3½%, with a view to a settlement up to 4½%, will be adopted. I have said that the paper should focus Ministerial attention on the opening offer, which ought to be in the 3-3½% range, rather than on the final settlement or sticking point, which it is too soon to determine. Since the meeting, I have agreed with Peter Le Cheminant that this will be the case; and it is helpful that some of the larger departments are starting to say that the 3½% cash limit can no longer be relied upon to finance a 4½% settlement.

The draft paper for MISC 66 will be circulated tomorrow, and I shall have one more chance to comment: I shall be glad to know

whether you are broadly content with the figures now emerging,
and whether Michael Scholar (to whom I am copying this note)
X | feels that the Prime Minister ought to be alerted to what is
going on before MISC 66 meets.

J.

25 January 1983

CS Pay

MR MOUNT

cc Mr Walters
Mr Scholar ✓

THE 1983 CIVIL SERVICE PAY NEGOTIATIONS

The Official Group (MISC 67) had its first discussion today of the line to be taken with the unions in the Civil Service pay negotiations this year. In the light of the discussion, the Treasury will be preparing a draft report for Ministers, and the Chancellor will probably Chair the Ministerial Group (MISC 66) towards the end of next week. I shall certainly not recommend that the Prime Minister exercises her right to Chair the Ministerial Group, both because at this stage the issues are not particularly difficult, and because her own diary would make it virtually impossible.

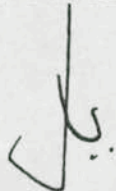
The background to the negotiations is quite encouraging. The unions are in tremendous disarray, scarcely able to agree on a common claim, still reeling from the unsuccessful strike in 1981, and more recently battered by the failure of their industrial action over local DHSS offices in Birmingham (which cost them over £1 million). The Government is not committed to arbitration; the Treasury admit privately that the 3½% pay factor could probably be made to accommodate a pay settlement of up to 5%; and the going rate in the public services is pretty firmly established at 4½%. The Treasury negotiators think it highly unlikely that they can reach an agreed settlement with the unions, but would expect that they could impose a pay rise of around 4½% without serious industrial action. However, it is as well to remember that although widespread industrial action is unlikely, comparatively limited and selective strikes can be very much more expensive than one percentage point on the pay rise, which costs only £60 million.

Peter Le Cheminant, who will be the leading Treasury negotiator, does not believe that an opening offer below 3% would be taken seriously - and if it were, believes that it would provoke some immediate industrial action. But an opening offer of around 3%, together

with a few detailed propositions designed to provide room for negotiation is generally regarded by MISC 67 as realistic, although most of the major employing departments would then hope that it would be raised in negotiation to at least 4%.

I have said my usual piece, pointing out that Ministers are constantly urging the need for another step down in pay, that the civil servants had a nice arbitrated award last year, and enjoyed great job security; and that public services in Germany, Japan and the United States were being offered 2% or less this year. I suggested that Ministers might well want the negotiations to end no higher than 3½%, and that they would certainly be unhappy with a figure as high as 4½%, which was achieved by the NHS only after eight months of industrial action.

There are of course more radical options open to us, including following President Reagan's example and offering nothing. We could almost certainly win the ensuing strike, although the cost in lost revenue would be high. But any gains would be temporary, because under the Megaw system a few percentage points lost now by the civil servants would rapidly be recovered in the comparability procedure.



17 January 1983



Prime Minister (2)

MU 23/12

PRIME MINISTER

DHSS LOCAL OFFICE STRIKE

We are announcing today that the two Civil Service unions involved (SCPS and CPSA) are recommending that their members on strike in our local offices in Birmingham and Oxford should go back to work on 10 January. The unions may have some difficulty with their own members over recommending a return to work, without anything of substance gained, after strikes which started on 15 September. The strikers are due to meet on 4 January when the unions' recommendation will be put to them. What is significant about this is that on this occasion both unions will be recommending a return to work. (There have been two previous occasions when only the CPSA has so recommended, and the strikers consequently decided to continue their action.)

This has been a strike about staff numbers. Our local offices have undoubtedly been through a difficult year, with rising numbers of supplementary benefit claims and several major changes of policy to implement in order to enable staff numbers to be reduced as a major contribution to the Service's target of 630,000. But complements have been broadly correct, according to the system we agreed with the unions three years ago, and there has been no substance in their claim for extra permanent staff. There has been a need, however, to adjust the balance of staff between different blocks of work within local offices, which has added to managerial problems and staff pressures. The pressures are undoubtedly most acute in inner-city offices. We have been ready from the outset to offer a joint review of our manpower system, with the unions, to see whether it is sufficiently responsive to changes in work loads and local pressures. This has now been accepted as the basis of the return to work. We have also launched a study of our own of inner-city problems.

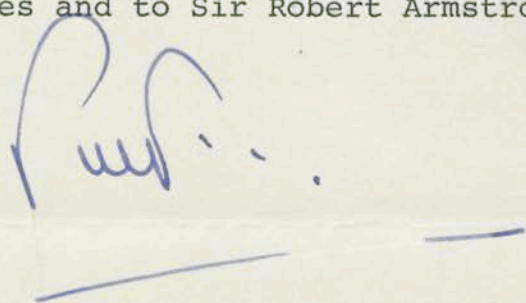
E. R.

The dispute started at one office on 15 September, and spread through all the Birmingham offices and to one office in Oxford, until we have had about 750 staff on strike in twelve offices which has led these offices to be closed to the public for varying periods of up to 14 weeks.

But throughout about half the staff in these offices - and all the middle and senior management - have stayed at work and kept much of the business flowing. New claims have been taken at emergency centres, for which we have found sufficient volunteers. The staff who kept working, often in the face of harassment and picketing, have served valiantly, and the interference with service has been much less than the unions aimed for and has not caused a great deal of publicity.

The strike would not have lasted so solidly if the unions had not paid generous strike pay. The Society has said, for instance, that it has cost them £½ million in strike pay and the CPSA must have spent a similar amount at least.

I am copying this to Cabinet colleagues and to Sir Robert Armstrong.



23 December 1982

N F

23 DEC 1982

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RECEIVED
COMMUNICATIONS SECTION
U.S. AIR FORCE
WRIGHT-PATTERSON AIR FORCE BASE
DAYTON, OHIO 45433

CIVIL SERVANTS - *fev*

Prime Minister (2)

Caxton House Tothill Street London SW1H 9NAF

Telephone Direct Line 01-213.....6400.....

Switchboard 01-213 3000

Mus 20/12

Miss M O'Mara
 Private Secretary to the
 Chancellor of the Exchequer
 Treasury
 Great George Street
 LONDON
 SW1

20 December 1982

mf

Dear Margaret

MEGAW AND 1983 PAY NEGOTIATIONS FOR THE NON-INDUSTRIAL CIVIL SERVICE

tpm - with mcs?
 My Secretary of State has seen the Chancellor's minute to the Prime Minister of 16 December and Michael Scholar's letter to you of 17 December.

He agrees with the Prime Minister's suggestion that there may be a case for deleting paragraph 5 from the second draft letter attached to the Chancellor's minute. He also agrees that a reference in paragraph 6 to the fact that many settlements in this round are less than the corresponding settlements in the last round would be helpful. However, on balance, he would prefer not to quote a figure of 5% by the spring but to say "will have fallen further by the pay settlement date". He feels that the substantial drop in the inflation rate that has taken place, and the prospect of a further substantial drop, is such an important and beneficial influence on negotiations in this round, both generally and for the Civil Service, that it should be stressed to Civil Servants despite the admitted risks in pointing to the RPI in the context of pay negotiations. He also fears that open references to zero settlements in the private sector, and to the arguments against annual settlements, might be counterproductive in the present context. He has no other comments on the drafts.

Copies of this letter go to Michael Scholar (No 10), David Clark (DHSS) and Mary Brown (Lord Privy Seal's Office).

Yours Sincerely
Felicity Everiss

MS F M EVERISS
 Private Secretary

210 DEC 1982

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7 6 5

CONFIDENTIAL



SW

bcc: J. Vereker

10 DOWNING STREET

From the Private Secretary

17 December, 1982

Dear Margaret,

Megaw and 1983 Pay Negotiations for the
Non-Industrial Civil Service

The Prime Minister was grateful for the Chancellor's minute of 16 December, to which was attached two/draft letters to the unions.

The Prime Minister agrees to the despatch of these letters. She has commented that there may be a case for deleting paragraph 5 of the second letter, if the point there made about flexibility risks being taken as a broad hint that a settlement of, say, 4½ per cent, was in the offing. She has also suggested that a drafting change might be made in paragraph 6 of the same letter where, in the passage about the fall in inflation, it would be best not to prompt a comparison between the 3½ per cent pay factor and the prospective rate of inflation of 5 per cent. Would there not be a case for referring to the fact that in this pay round so far almost everyone is settling for less than they had last year, and to the CBI's survey which shows that one in ten settlements are zero; and also the argument that the time is fast approaching when annual pay increases cannot be regarded as automatic?

I am sending copies of this letter to David Clark (Department of Health and Social Security), Mary Brown (Lord Privy Seal's Office) and Barnaby Shaw (Department of Employment).

Yours sincerely,

Michael Scholes

Miss M. O'Mara,
H.M. Treasury

CONFIDENTIAL

RM



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

PRIME MINISTER

MEGAW AND 1983 PAY NEGOTIATIONS FOR THE NON-INDUSTRIAL
CIVIL SERVICE

Now that the pay conferences of the Civil Service unions are over (the IRSF, which is the last of these, finished yesterday), the way is clear for us to make known to the unions our readiness to enter into negotiations with them on Megaw. At E on 2 December we agreed that this should be done in a low key and general way. I propose that a letter should be sent to the unions at official level; that its contents should be made known to Parliament by way of an arranged PQ (which would be press-released); and that all staff should be told about it. I attach a draft of the letter to the unions which follows the lines of the draft circulated by my Private Secretary on 1 December. I do not think that it would be right for us to go into any more detail than does the present draft.

2. I also propose that we should send a letter to the unions about the 1983 pay negotiations. I suggest that this should be written at official level and I attach a draft. The unions posed a number of questions on next year's negotiations at a meeting with officials this autumn, following the announcement of the 3½ per cent cash factor for Civil Service pay, so that it would be natural for officials to respond now.

3. I think it is important that our staff should begin to realise the context within which we shall be negotiating in 1983. Departments would therefore be asked to circulate the letter generally to all

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staff and to take care over its presentation. We would make the letter available to the press if we were asked for it, although I do not suggest that we should directly seek publicity for it. We want to avoid the suggestion that this is a public relations exercise with an eye on external reaction, rather than a serious attempt to put the position properly before our staff in advance of our pay negotiations.

4. The unions have a meeting of their Major Policy Committee on 21 December to consider the outcome of the main pay conferences. They have a full Council meeting on 6 January. Since the NHS dispute now seems to be out of the way, I see advantage in sending the letter on the Civil Service pay negotiations to the CCSU before 21 December. The letter about Megaw would go to them at the same time.

5. I should therefore be grateful if colleagues could let me have any comments by the morning of Monday 20 December.

6. I am copying this minute and its enclosures to Norman Fowler, Janet Young and Norman Tebbit.

G.H.

16 December 1982

CONFIDENTIAL

DRAFT LETTER TO MR KENDALL (COUNCIL OF CIVIL SERVICE UNIONS)

I have now been authorised by Ministers to let you know that the Government is prepared to enter into negotiations with the Civil Service Unions with a view to agreeing an ordered pay determination system based on the recommendations of the Megaw Report. It is in the nature of an agreement of this kind that both sides have to accept some limitations on their freedom of action and both sides will no doubt seek safeguards from their respective points of view - including in the Government's case safeguards to the public purse and public policy.

Nevertheless the Government is prepared to accept in principle the broad approach of the Megaw recommendations and to negotiate on them with goodwill and the intention to succeed.

I hope that an early meeting can be arranged between the two sides to pursue our discussions on this basis.

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DRAFT LETTER FOR SIGNATURE BY MR LE CHEMINANT

To: W L Kendall Esq.
Council of Civil Service Unions

At our meeting on 13 October you and your colleagues put a number of questions to us arising from the Treasury announcement that the Government had decided to budget for sufficient additional cash next year to provide for average increases of 3½ per cent from due settlement dates in the Civil Service and certain other pay bills. Richard Wilding and I took your questions away and undertook to let you have a considered response. I am now writing to explain the position as we see it.

2. First, you asked us whether there would be room for genuine negotiations about pay with the CCSU next year. The answer is an unconditional yes. We intend the negotiations to be genuine and to conduct them with the aim of reaching an agreed settlement.

3. I know that you and your CCSU colleagues understand the way the financial planning system works. But others may not, and this may give rise to unnecessary fears and misunderstanding about the 3½ per cent figure. I would like therefore to use this letter to clarify matters for a wider Civil Service audience.

4. The normal processes of public expenditure planning, and the Parliamentary timetable, require Government to take decisions about the amount of money it can afford to set aside for pay and related matters well before the beginning of the year in which the money is to be spent. The Government is accountable to Parliament and the people for the money it spends - now over £120 billion a year - and cannot fulfil its obligations without planning ahead in a sensible and coherent manner. By convention the provision made for pay tends to be expressed in terms of a percentage increase from the baseline. But what is really being done is the earmarking of a total sum of money to meet all of the Government's pay and pay-related expenditures in the year ahead. In other words the decision taken is not about the size of the pay increase which the Government judges to be right for individual employees in the coming year, but about the allocation of total cash resources for a variety of purposes. Thus, as the Treasury statement of 1 October said, the 3½ per cent figure is not a "norm". Nor of course is it an incomes policy. Nor is it an entitlement. It is part of the operation of planning how much cash to provide for each component part of the services the Government makes available to the nation.

5. Moreover, within the cash limits which include pay, there is room for flexibility, as the experience of the past 2 years has demonstrated. The outcome for 1983-84 will depend on many factors including the number of staff which we find we need to employ in that year, the amount of overtime that needs to be worked, the improvements we make in general efficiency, and so on.

6. You may say that the room for manoeuvre nevertheless remains insufficient, when combined with the 3½ per cent figure, to accommodate the current ambitions for a pay settlement next year of some of your members. As Richard and I said at the meeting, it is important to see the matter in the context of a rapidly changing economic situation. In particular, much lower prospective rates of inflation are now becoming apparent. The rate of inflation as measured by the retail price index has virtually halved this year (from 12.0 per cent in January to [] per cent in November) and we estimate that it will have fallen further, to around 5 per cent, by next spring. In these circumstances a further significant fall in the level of wage settlements is to be expected.

7. The Government's view is that one of the reasons why the picture has changed is precisely because restraint on wages has been carried through, with beneficial effects, to the state of the economy as a whole. You are well aware of our economy's sharp deterioration in competitiveness in recent years, much of which can be attributed to excessive wage settlements. Indeed, compared with the position when the Government took office, the whole of the current loss in cost competitiveness of around 20 per cent directly reflects the fact that our wage costs have been rising faster than those of our competitors. The result has been a smaller share of markets both at home and abroad and the loss of 1½ million jobs. We must look to lower pay settlements in manufacturing industry for an immediate improvement in our competitive position but the private sector cannot be expected to bear the burden alone. Public service costs also impinge on the trading sector of the economy and must be controlled equally firmly.

8. I think that it is worth looking at the experience of other countries. Germany, for example, is widely regarded as one of the most successful industrial societies. A key feature in its success has been that pay settlements, in the public services and elsewhere, have tended to be modest. Rates of inflation, not surprisingly, have also tended to be low. It is not without significance that the German Government is planning no more than a 2 per cent increase in the cost of certain public service wage bills. The current rate of inflation in Germany is 4.9 per cent.

9. I am well aware of your concern to protect the living standards of your members. But if we are to maintain the progress already achieved, this frankly cannot be guaranteed for

y group. Living standards depend crucially on the health of the whole economy and thus on improved competitiveness. That can be secured only if there is widespread acceptance of the need for higher productivity and for moderation in pay increases. It means continued restraint in public spending, of which pay is a large element, to help create conditions for lower levels of taxation which will benefit individuals.

10. I now turn to the other main question you put at our meeting - the availability of arbitration next year if negotiations fail to lead to agreement. Frankly, it is too soon to answer that question. We shall be looking for a negotiated settlement. That is not a platitude. Recent negotiations, eg on London Weighting allowances, have shown that the Treasury and the Civil Service Unions can resolve wide differences of view by negotiation and flexibility. Let us not assume yet that we cannot do the same again.

11. You also asked whether, if the Government were in the event to agree to arbitration it would insist on reserving the right to ask Parliament to overturn any award. Again, I cannot answer yet. Though as you know the right of Parliament to have the last word on the spending of public money is fundamental to our constitution and our democracy.

12. Please forgive me for writing at such length, but the 1983 pay negotiations will be of great importance to the Service whose interests we all have at heart. You asked some very reasonable questions on behalf of your members. I hope you and they will find my response to be equally reasonable.

13. You will, I am sure, wish to make this letter available to your members. We would propose also to circulate it widely in the Service as a whole.

Prime Minister

(1)

MR SCHOLAR

Please see the Chancellor's
minute (attached). cc Mr Mount

MEGAW AND 1983 PAY NEGOTIATIONS

(I thought there were both good letters - Agree to
their despatch, subject to X? Mas 16/12 ⁱⁿ)

In his note of 16 December, the Chancellor suggests how we should approach the unions on Megaw, and on this year's pay negotiations.

I am quite content with the suggested letter to the Council of Civil Service Unions on Megaw. It is not necessary at this stage to go into the safeguards in detail, and far better to let them emerge in the course of negotiations.

I am less happy about the letter on the background to this year's pay settlement. I agree that it is desirable to have such a letter, in order to clear up misconceptions and lower expectations. But there are two places in which I think the letter goes astray:

- (i) In paragraph 5, Peter Le Cheminant goes out of his way to remind the unions that the 3½% cash limit includes room for flexibility "as the experience of the past 2 years has demonstrated". Since that experience has shown that about 1% extra can invariably be squeezed out of cash limits, this will be taken by the unions as a broad hint that a 4½% settlement is in the offing. I think this paragraph should be deleted.
- (ii) And in paragraph 6, I am doubtful about the desirability of measuring the 3½% pay factor against the prospective rate of inflation of 5%. It is fair enough to remind people that as inflation falls, so should expectations. But much of the effect is lost if we simultaneously point out that the pay factor is well below the lowest expectation of inflation. It would be better in this paragraph to replace the reference to 5% with reference to the fact that in this pay round so far, almost everyone is settling for less than they had last year, and to the CBI's survey which shows that one in ten settlements are zero. Peter Le Cheminant could go on to make the point (which the Chancellor has already made in our evidence of the TSRB) that the time is fast approaching when annual pay increases cannot be regarded as automatic.

JOHN VEREKER

16 December 1982



20 JV
Civil Service

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

14 December 1982

Michael Scholar, Esq.,
No.10 Downing Street

Dear Michael,

ANNUALITY AND THE REVIEW BODIES

P4 12
Your letter of 8 November, which was primarily concerned with the Megaw Report, recorded that the Prime Minister wondered whether we should be encouraging the Review Bodies to move away from automatic annual pay increases.

There is nothing in the Review Bodies' terms of reference which requires them either to carry out a review or to recommend a pay increase every year; they are required simply to "advise the Prime Minister on the remuneration/pay and allowances" of the groups. In general, the Review Bodies carry out annual reviews because they follow current, conventional pay practice (though in the case of the Top Salaries Review Body the then Government announced in December 1974 that it proposed specifically to invite the Review Body to carry out annual reviews for the higher Civil Service, senior armed forces officers and the judiciary).

To preclude the Review Bodies from carrying out annual reviews or from making annual awards before a clear trend away from annual increases has become established in the economy generally, would be strongly resented by the groups on whose pay they report. A particular problem would arise in relation to the Government's commitment to the armed forces. We should also risk creating a 'catching up' problem in the years in which the Review Bodies did report. However, we can perfectly reasonably frame our economic and other evidence to the Review Bodies in such a way as to encourage them to consider whether any pay increase is justified in the year in question, and not to take this for granted. The Prime Minister will have seen the draft evidence to the Top Salaries Review Body which sets out to do just this. A similar line has been taken in the draft evidence to the Doctors and Dentists and Armed Forces Review Bodies.

I am copying 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,
Margaret O'Mara

MISS M. O'MARA



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PRIME MINISTER

The Megaw Report

I agree generally with Mr. Peter Gregson's brief for E Committee's discussion of the Megaw Report tomorrow.

2. Though clearly the Government should not be prepared to embark upon negotiations with the unions on the Megaw Report unless it is genuinely prepared to reach agreement on that basis, Ministers are not now being asked to commit themselves to every detail in Megaw as a basis for agreement. They have been asked simply to accept the Megaw recommendations as a basis for negotiations on a new pay system.

3. MISC 83 concluded that the Government should accept the recommendations as a basis for negotiations. If, subject to satisfactory resolution of the points you yourself have raised, E Committee endorses that conclusion, that will in my view have advantages for the Government, both in its relations with its own staff and in its dealings with the unions.

4. It was the Government that terminated the old pay agreement; and that decision upset a great many members of the staff and provided militants in the unions with a cause which they could exploit. It was then the Government which set up Megaw. If the Government can now show that it is prepared to negotiate on a new pay system, based on Megaw, that is likely to help relations with staff throughout the Civil Service, not least in handling the pay settlements for April 1983.

5. There could be no certainty that the unions would be able to agree among themselves to negotiate on the basis of Megaw, let alone to reach agreement. The two largest unions, the Society of Civil and Public Servants and the Civil and Public Services Association, whose Executives are now heavily dominated by the left, are holding special conferences this month, and may try to prevent negotiations. If there is to be failure to



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negotiate, it will be preferable that the onus for that failure should be placed upon the unions rather than upon the Government. It would help to avoid further weakening of the moderates in the unions if the Government were to show that for its part it was prepared to negotiate on the basis of Megaw; and in that event the blame for failure would rest with the unions and would put them at a disadvantage.

RA

Robert Armstrong

1st December 1982

Prime Minister

ms 1/12

PRIME MINISTER

cc Mr Mount

E: Megaw

We have consistently advised you against the adoption of a Megaw type pay determination system for the Civil Service, because we do not believe the Megaw proposals adequately satisfy our criteria of affordability and market factors. The further work by officials on safeguards has certainly produced proposals which will limit the drawbacks of a Megaw system, but they do not remove our fundamental objections. We believe that the introduction of Megaw into the Civil Service, which is bound to be followed and imitated elsewhere in the public services, will rigidify pay bargaining and hinder our efforts to reach a state in which no pay increases are automatic, and all are related to profitability, productivity and performance.

Nonetheless we do not suggest you hold out against the Chancellor's recommendation that we open negotiations with the unions on the basis of Megaw, for two reasons:

(i) Most if not all of your colleagues would be content with a Megaw type system, and indeed those responsible for other public services (such as the NHS and the Police) are already contemplating the introduction of similar arrangements;

(ii) Since Megaw is widely (but in our view, wrongly) regarded as offering what the Government wanted, we would be accused of setting up the inquiry in bad faith if we now announced that we do not like the recommendations. There would certainly be a vigorous reaction from the Civil Service unions, who begin their special pay conferences next week.

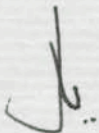
I suggest therefore that there is no point in resisting the recommendation of the Chancellor's Group (MISC 83) to the effect

that Megaw should be accepted as a basis for seeking to negotiate a new pay system. The important decision for E is over safeguards, the subject of the supplementary report by the Official Group.

In my view, the safeguards recommended by the Official Group meet your concerns, notably about the danger of a new system committing the Government to finance a pay increase it cannot afford. Apart from the right to terminate any new Pay Agreement at six months notice, officials recommend that the Government should have the right to impose a settlement outside the interquartile range, subject to the approval of the House of Commons, which could be sought if the Government judged national economic circumstances required it. The unions will certainly resist this, because it gives the Government the power to override the outcome of the process of comparisons; but it is no more than any employer has a right to insist upon.

The officials' supplementary report comes down against getting recruitment, retention and job security data into the comparison process, but concludes that the possibility of this could be looked at early in the life of the new system. It is unlikely that your colleagues will be prepared to accept the fundamental change that would be implied by diluting comparability with market factors in this way, but we would much prefer it.

The Chancellor will no doubt warn his colleagues that the negotiators will have difficulty in reaching a new Pay Agreement on the basis of Megaw plus safeguards. And indeed the unions' pay conferences may instruct their executives not to negotiate. But if negotiations do take place, the two points of difficulty for the unions are points on which I am quite sure we should make no concession: access to arbitration only by agreement, and imposition. It would be helpful if that is made clear to the negotiators from the outset.


1 December 1982



CONFIDENTIAL

P.0902

PRIME MINISTER

The Megaw Report

BACKGROUND

The Report of the Inquiry into Civil Service Pay under Sir John Megaw was published in July. It proposed a new system of pay determination in the Civil Service, of which the main features would be as follows:

- a. The governing principle should be to ensure that civil servants were paid enough to recruit, retain and motivate them to perform efficiently the duties required of them at an appropriate level of competence.
- b. Annual pay increases should be confined to the range between the lower and upper quartile of movements in the pay of comparable workers in the private sector: the point within this interquartile range would be a matter for negotiation in the light of market factors and affordability.
- X c. Every four years there should be a review of total remuneration levels both within the Civil Service and of comparable workers outside; if the review showed that there had been unacceptable changes in Civil Service pay levels compared with those elsewhere, this should be resolved by adjustments over a period of years within the interquartile range of annual pay movements.
- d. Responsibility for data collection and analysis would be entrusted to an independent Pay Information Board (PIB) of suitably qualified and experienced outside members.



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2. On ⁴ November the Chancellor of the Exchequer sent you a minute setting out the conclusions of the Ministerial Group on the Megaw Report (MISC 83). The Group was firmly of the view that the Government should accept the Megaw recommendations as a basis for seeking to negotiate a new pay system, although not for "seeking an agreement at any price". Any new pay agreement should, however, be subject to certain safeguards. The Group also wished to explore ways of avoiding reinforcing the concept of an automatic annual pay increase. Officials were to advise on this, and also on the form and timing of a public statement of the Government's attitude to the Megaw recommendations.

3. Mr Scholar replied on your behalf on ⁸ November asking that further work should be done by officials on the safeguards to which the Chancellor of the Exchequer had referred, and saying that the Ministerial Committee on Economic Strategy should then discuss the issues. The letter of ²⁵ November from the Chancellor's Private Secretary forwards a report by officials on:

- a. safeguards;
- b. avoiding annual pay awards; and
- c. the role of the PIB.

4. The main Civil Service trade unions (Civil and Public Service Association, Society of Civil and Public Servants, and Inland Revenue Staff Federation) are holding special conferences in December to discuss their attitude to Megaw. They are no longer expecting a statement of the Government's views beforehand.

MAIN ISSUES

5. The main issues are as follows:

- i. What is the Government's general attitude to the Megaw recommendations?

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ii. What view do Ministers take of the recommendations in the report circulated on 23 November about safeguards and other matters?

iii. How and when should the Government make its attitude public?

General attitude

6. The main question is whether the Committee agrees with the judgement of MISC 83 that a pay system based on the Megaw recommendations would be preferable to free collective bargaining, the only realistic alternative. MISC 83 took the view that it was preferable because, while recognising that the Government would have to accept some limitations on its freedom of manoeuvre, they saw advantage in the limits imposed on the unions' freedom. They also thought that limiting the room for argument would significantly reduce the risk of industrial action.

7. It can be argued that the element of constraint implied in the Megaw system is an undesirable modification of the market approach to pay generally favoured by the Government. On the other hand it is not easy for the Government to bring market pressures to bear in free collective bargaining as effectively as a private sector employer. As experience overseas has shown, Governments find it difficult to be in frequent strife with their own employees and usually have to adopt some settled pay arrangements for them, although these sometimes have to be overridden in times of economic difficulty.

8. Whether or not the Committee agrees that a Megaw system would work better than free collective bargaining, it has to be borne in mind that the Government is not starting from a clean slate. It asked the Megaw Committee to advise on a new pay system and the recommendations accept much of the Government's evidence: the need to take account of market factors, such as recruitment and retention; the importance of affordability; and the need to give less importance to comparability. If the Government were now to conclude that it was unwilling even to negotiate on the basis of the Megaw recommendations, its stance would not be easy to explain either to its own employees or to the public at large.



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9. If the Committee agrees that the Government should negotiate on the basis of Megaw, it is then a question of deciding what the safeguards should be, bearing in mind however the judgement of MISC 83 (paragraph 4 of the Chancellor's minute of 4 November) that "there is obviously no prospect of an agreement which places restrictions on the unions but leaves us totally free".

Safeguards

10. The officials' report circulated on 23 November discusses four possible safeguards: termination of the agreement; revision of the agreement; provision to impose a settlement outside the agreed interquartile range; and suspension of the agreement.

Termination

11. It is normal for any agreement to provide for its own termination; and there is no reason to suppose that provision for this will create problems. The only question is whether the period of notice should be three months or six months. The period in the previous pay agreement was six months; a shorter period would give greater flexibility for both the Government and the unions. The report by officials concluded that there would not be sufficient advantage for the Government in a shorter period to justify making this a bargaining objective.

Revision

12. Provision for amendment by agreement is normal; it appears to raise no problems.

Imposition

13. It is recommended in paragraph 24c of the officials' report that the aim in negotiations should be to secure provisions such that "the right of the Government was recognised, on its own initiative, to invite the House of Commons to make a pay award for the Civil Service outside the interquartile limits when it judged national economic circumstances to require this".

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It is recognised that the unions are likely to object strongly to a proposal on these lines. They will see it as a very significant modification of the Megaw recommendations. Unlike proposals relating to termination, suspension or revision of the agreement, this proposal gives a right only to one side, the Government, although the approval of the House of Commons has to be secured, and the right can only be exercised in certain defined circumstances.

14. The Committee will first need to consider whether such a provision is needed and then what form it should take. On the case for a provision MISC 83 took the view (paragraph 7 of the Chancellor's minute of 4 November) that "there will also need to be some form of Parliamentary override on settlements, arbitration awards or both, when economic circumstances require this". The officials' report makes it clear that there is no need for override of an arbitration award so long as the Government ensures that arbitration cannot take place without the Government's agreement. There is also no need for override unless the Government's pay objective is below the interquartile range, ie that the Government wishes Civil Service pay increases to be less than those being granted to 75 per cent of comparable private sector workers. Presumably such circumstances would not arise often. Nevertheless the Committee may feel that in these circumstances the Government ought to have an option other than termination of the agreement, especially if it wishes to act more quickly than would be possible within the notice period for termination.

15. On the form of the provision the main issue is how to define the circumstances where it might be used. The review body formula of "clear and compelling reasons", which has frequently been invoked in respect of the Top Salaries Review Body, might be held to be too wide. The officials' report therefore favours a formula referring to "national economic circumstances", the words used in the Remuneration of Teachers Act 1965 to define the circumstances in which the Government might invite both Houses of Parliament to set aside an arbitral award for the teachers. The Secretary of State for Education and Science may remind the Committee that there has been some discussion in the past as to how restrictive this formula might be. In the context of the teachers the Law Officers have



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advised that it would be difficult for the Government to use this power under the 1965 Act if there have been other pay settlements of similar amounts to which the Government was a party. In the case of the Civil Service pay agreement the formula would be non-statutory. Nevertheless it would be difficult to invoke it if the Government wished to single out Civil Servants for less favourable treatment than other public service groups. Provided that the Committee acknowledge this, such a formula might be the right one.

Suspension

16. The officials' report argues against having a provision to suspend the agreement. The main considerations are as follows:

a. It would be hard to deny the unions a parallel right; they would obviously use this right at a time which they judged likely to cause the maximum difficulty to the Government. It might be held that an agreement which both sides are free to ignore whenever they wish is hardly worth making.

b. It is hard to see what benefits the Government would gain from the right to suspend which could not be gained equally well by termination, revision or imposition. There would be no advantage comparable to that which the Government sought in 1981 by suppressing PRU evidence. The PIB will only produce evidence about ranges of pay movements which will be known broadly from other sources. It might in any case be undesirable for the Government to state in advance that it intended to fix Civil Service pay below the lower quartile whatever that might be. But even if the Government did so wish, it could invoke in advance the "imposition" provision outlined above.

17. It would seem therefore that a suspension provision would only be worth considering as an alternative to the imposition provision, if the Committee thought that unacceptable or it proved not to be negotiable.

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Avoiding annual pay awards

18. The report by officials points out that under the Megaw system an annual pay award can be avoided where the lower quartile of outside pay movements is zero or less. The question is whether to have a threshold of say one per cent, below which a settlement was regarded as "de minimis" and not implemented. It is difficult to see how such a provision would be negotiable without some arrangements for "catching up" which the Megaw system is designed to avoid. There may also be practical problems when, although the overall increase is below the threshold this covers a spread of different increases for different staff with some getting considerably more than the threshold. The Committee may feel that the right time to deal with this (and the associated issue of having pay awards lasting for more than one year) is when pay movements in the economy generally and the pattern of pay awards have made such a "de minimis" provision both a worthwhile objective and realistically negotiable.

Role of PIB

19. Mr Scholar's letter of 8 November asked that the possibility should be studied of charging the proposed PIB with responsibility for taking recruitment and retention data, and job security, into account before reaching the conclusions of its comparability work. The report by officials advises against this on the grounds that it would take the PIB into areas which should be matters for managerial judgement and for negotiation. It might thus tend to constrain further the Government's freedom to secure the level of settlement it wanted. The report does, however, suggest that the PIB might be asked to report on how the relevant factors might be brought to account in the most effective way.

Announcements

20. Megaw reported five months ago. It seems highly desirable that the Government should soon give an indication of its attitude to the Committee's recommendations, although this is not now necessary before the unions' December conferences. The Chancellor argued in his minute of 4 November that it is not necessarily right to suppose that any statement should be made



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primarily to Parliament or the media and that it is at least as important for the Government to communicate its views to its own employees. You may wish to invite the Chancellor of the Exchequer to circulate the draft of a Government statement, with proposals on its form and timing.

HANDLING

21. You will wish to ask the Chancellor of the Exchequer to introduce the discussion. The Lord Privy Seal will also wish to comment in respect of her responsibility for the Management Personnel Office and you may wish to invite general comments from the Secretary of State for Employment. All those Ministers in charge of Departments and responsible for other public services have an interest and may wish to contribute.

CONCLUSIONS

22. You will wish the Committee to reach conclusions on the following:

i. Should the Government accept the Megaw recommendations as a basis for seeking to negotiate a new pay system, subject to any specific safeguards or reservations agreed in discussion?

ii. Does the Committee accept the recommendations in the report by officials circulated with the letter of 23 November on the following possible safeguards:

- a. termination;
- b. revision;
- c. imposition;
- d. suspension.

iii. Does the Committee accept the recommendations on other matters namely:

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e. that there should be no minimum threshold for pay increases, or specific provision for settlements lasting more than one year;

f. that the Government should not seek to extend the role of the Pay Information Board, but should ask it in due course to study the possibilities for bringing market factors into account in the most effective way.

iv. How and when should the Government's decisions be made known?

*PIB
o
Market factors
- do not
ask them to
evaluate*

Pg

P L GREGSON

30 November 1982

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6 Card Service



at Mr Verelken.

10 DOWNING STREET

From the Private Secretary

MR HATFIELD

The Prime Minister has seen and noted Sir Robert Armstrong's minute of 22 November about pay and grading structures. She was interested to hear of the group which Sir Robert has established and she very much hopes that it can prepare a workable form of merit pay for Ministerial consideration as soon as possible.

I am sending copies of this minute to Mr Kerr (HM Treasury) and Mrs Brown (Lord Privy Seal's Office).

TIM FLESHER

24 November 1982

CONFIDENTIAL

Handwritten flourish

PA
MR SCHOLAR

cc Mr Mount

MEGAW

As you know, I was consulted about the supplementary report from officials on Megaw safeguards, enclosed with the letter of 23 November from the Chancellor's Private Secretary. I think it and the original report are now ready for discussion in E, as the Prime Minister has instructed, and I understand that the Cabinet Office have a slot set aside for 2 December. I will of course provide a brief at that time.

J.

24 November 1982

CONFIDENTIAL

For E
and some
of JV



Prime Minister

2

This is for discussion

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

at E, as you
instructed in
December 2.

Michael Scholar, Esq.,
10 Downing Street

23 November 1982

mt

Mus 24/11

Dear Michael,

MEGAW

In your letter to me of 8 November, you recorded certain additional points on the Megaw proposals on which the Prime Minister wished to have further advice from officials before the issue was considered in E. A supplementary report on these points from the Official Committee on the Megaw Report (MISC 84) is now to hand and I am circulating it under cover of this letter.

I am copying this letter to the Private Secretaries to members of the Cabinet, the Attorney General and the Lord Advocate, and to Mr Sparrow and Sir Robert Armstrong.

Yours sincerely,

Margaret O'Mara

MISS M O'MARA

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THE MEGAW REPORT: SUPPLEMENTARY POINTS

REPORT BY THE OFFICIAL GROUP ON THE MEGAW REPORT (MISC 84)

Introduction

The Chancellor of the Exchequer's minute to the Prime Minister of 4 November reported the conclusions of the Ministerial Group on the Megaw Report (MISC 83). In a letter dated 8 November to the Private Secretary to the Chancellor of the Exchequer the Prime Minister's Private Secretary recorded points on which further work should be done before decisions were taken. This supplementary report from the Official Group (MISC 84) discusses, and makes recommendations, on these points.

A. "SAFEGUARDS"

2. This section of our report discusses the arrangements which might be sought in any new pay agreement with the Civil Service Unions to provide safeguards against unacceptable results emerging from the operation of a Megaw system.

Termination

3. The right to withdraw from, and thereby terminate, the agreement would represent an essential major safeguard for the Government. The 1974 pay agreement provided for this on six months' notice being given by either side, and we recommend that a similar provision should be included in any new agreement. There would be no need to prescribe any Parliamentary procedure for termination which should be a matter for the unfettered decision of either side, subject only to due notice being given.

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4. It would be possible to provide for a shorter period of notice than six months but, on balance, we recommend against this. Termination of the agreement would be a major step and both parties would need sufficient time to assess their position in the light of it and to prepare for subsequent pay negotiations in the new situation. Moreover, while the Unions could be expected readily to accept a termination provision similar to that in the old agreements, any attempt to negotiate a shorter period of notice would arouse their suspicions and complicate the negotiation process. In view of the recommendations we make in the following paragraphs we believe it is unnecessary to place ourselves in the position of "demandeur" on this issue.

Revision

5. We believe that it would be essential for any new agreement to contain a provision enabling any of its terms to be reviewed and, if necessary, renegotiated. Such a provision is common in pay agreements and can provide a substantial safeguard both against any emerging weaknesses in the scheme as initially determined, and to accommodate developments of the scheme which prove desirable. We believe it to be essential for any new pay agreement to contain a provision on these lines. We do not think it necessary to seek to include in the agreement a time limit for acceptance of change because the provision for termination of the agreement will provide the necessary negotiating lever.

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Imposition

6. Circumstances can clearly arise in which the Government would find wider policy objectives unnecessarily restricted by the terms of the agreement. Were the Government's desired outcome of pay negotiations to lie within the inter-quartile range of the Megaw system there would be no need for a special provision. Government would simply stand its ground, refuse access to arbitration and, in effect, face the Unions with the choice of acceptance or industrial action. A decision of this kind would not involve any breach of the agreement itself and would not require Parliamentary approval.

7. Circumstances could arise in which the Government's desired pay objective for the Civil Service lay outside the inter-quartile range. In this situation - which might arise too late for notice of termination to be given - the Government would need a recognised means of overriding the terms of the agreement if it was to avoid accusations of breach of faith. In our view the best method of achieving this would be to provide arrangements under which the Government could, on its own initiative, ask the House of Commons to approve, and thereby impose, a settlement outside the inter-quartile range.

8. In our view the terms of a provision of this kind would need to include a definition of the circumstances in which the Government would feel free to implement its power to seek Parliamentary override. There are two useful precedents: that applied for many years to reports of the Review Bodies - that in the Government's view there are "clear and compelling reasons" for the action; or that built into the Remuneration of Teachers Act 1965 which refers to the requirements of "national economic circumstances". We favour the second alternative.

9. The Unions are likely to object strongly to a proposal on these lines and will ask what arrangements would be envisaged to restore lost pay when the relevant national economic circumstances no longer obtained (they will particularly fear that operation of this power would ratchet down Civil Service pay in a manner which would not be recoverable within the Megaw constraints on annual pay increases). It would be both undesirable and unnecessary to concede any specific provision to cover this eventuality. The provision for revising the agreement (para 5 above) should enable problems of this kind to be tackled when they arise.

10. For clarity we do not believe that it would be necessary to have a power of Parliamentary override in respect of an arbitration award made under the new arrangements. If Megaw's proposals are adopted the Government will have the power to refuse access to arbitration and would only allow recourse to arbitration if it was prepared to live with the outcome. It is only in the unlikely event of the Government agreeing, in the course of negotiations on the terms of the new agreement, to provide unilateral access to arbitration that a power of override on an arbitration award would be needed.

11. In sum we recommend that the Government should seek a reserve power, when it judges that "national economic circumstances" so require, to impose, with the approval of the House of Commons, a pay settlement outside the "inter-quartile" constraints of the Megaw system.

Suspension

12. We have considered whether, in addition to provision for termination, revision and imposition, it would be desirable to seek arrangements under which any or all of the terms of a pay agreement could be suspended. The advantage of such a provision would be that it would provide a clear signal that the Government intended to return to the provisions of the agreement in due course and was merely suspending them to meet an immediate need. On balance however we recommend against seeking such a provision. It is difficult at present to foresee how it would achieve anything which could not be equally well achieved under the proposals to take power to impose a settlement (which would leave the basic agreement in being) and the de facto power to insist on re-negotiation of the basic agreement. There is no point in seeking - and perhaps being expected to pay for - provisions which we do not need.

13. In theory a suspension provision might enable the Government to suppress PIB evidence of outside pay movements, as it did in relation to Pay Research Unit evidence in 1981. But there is the distinction that whereas the PRU system in practice established median pay levels which were then regarded as appropriate Civil Service rates, the PIB will only produce ranges of pay movements which would in any case be known, albeit in broader terms, from other sources. There would be little advantage for Government in being able to suspend publication of PIB data.

14. Finally, it is relevant that if a power to suspend the agreement were sought, the Unions would undoubtedly claim, and could hardly be denied, a parallel right - to suspend it on their own initiative. Just as the Government would wish to use such a power for its own purposes, so might the Unions wish to use it for theirs. They might be particularly expected to exercise such a power in circumstances where they thought that the use of industrial muscle might give them a better result than could be achieved under the agreement itself. The alternative of a power to suspend by agreement of the two sides would be no different in practice from a provision to amend the agreement.

15. We accordingly recommend that no separate and specific power to suspend the agreement, whether unilaterally or jointly, is necessary or desirable.

B. AVOIDING ANNUAL PAY AWARDS

16. This section of our report considers whether a new pay system based on annual reviews can be reconciled with the avoidance of regular annual awards.

A Threshold Provision

17. Although Megaw envisages annual reviews these need not necessarily lead to a pay increase on each occasion. In any year when the lower quartile of outside pay movements was zero or below it would be open to the Government to argue that no pay increase should be awarded.

18. It might be possible to go further eg by seeking to introduce a threshold, say one per cent, below which a settlement was regarded as de minimis and not implemented. This proposal is open to two basic objections. First it would invite trouble with staff over settlements where cost was by definition minimal (and the problems would be exacerbated if, as is wholly possible with Megaw, different levels of settlement were envisaged for different grades and levels of staff). Second it would lead inevitably to pressure from the staff for arrangements for the "lost" pay increases to be made good in future settlements. It would thus build into the system problems of "catching up" of the kind which the Megaw system is specifically designed to avoid. We do not consider that it would be worthwhile seeking a threshold provision of this kind.

Settlements Lasting More Than One Year

19. Settlements lasting for more than one year may become more common as inflation falls. There is nothing in the Megaw concept which would prevent both sides agreeing on such deals if they wanted to do so. At least two techniques for this can be envisaged. First both sides could agree on a temporary "derogation" from the basic agreement to accommodate their wishes; and second both sides could agree that, for a given period of time, they would automatically implement some fixed position within the inter-quartile ranges. Given the freedom of both parties to enter into any agreement they choose we do not believe a specific provision need be sought to allow of deals extending beyond 12 months.

C. ROLE OF THE PIB

20. In this part ^{of our} report we consider the possibility of charging the proposed Pay Information Board with responsibility for putting a value to comparative data on recruitment and retention and job security and amending its conclusions on pay comparisons accordingly.

21. The Megaw proposals already require the PIB to provide the parties with comparative data on recruitment and retention, and on job security, as an aid to their negotiations for a settlement within the inter-quartile range. Indeed these two elements, plus the Government's view on affordability, will provide the substance of the arguments in those negotiations.

22. It would be possible to go further and ask the PIB to evaluate these factors in money terms as possible offsets to the range of discovered annual pay increases within which annual settlements are reached or of pay levels in the periodic review of these. The main difficulties with this approach are:-

a. that there is as yet no satisfactory means of valuing such factors other than by the exercise of broad judgement. If the PIB were asked to exercise such judgement its role would effectively change to that of a review or arbitration body handing down a view on the 'right' level of pay.

b. If suitable formulae could be found the outcome would be of a highly mechanistic character and could operate to the Government's disadvantage when the economy begins to revive.

c. That the staff would be highly suspicious that the whole comparisons exercise was being rigged against them and would not accept an agreement which effectively excluded any role for negotiations.

23. We would accordingly recommend that the Megaw proposals on these matters should be accepted ie that comparable information on recruitment and retention and on job security should be an input to negotiation, not a determinant of the inter quartile range within which negotiations would take place. This conclusion need not of course preclude Government from asking the PIB, when established to study^{and} report on the possibilities for bringing these factors into account in the most effective way.

CONCLUSIONS

24. We recommend that in any negotiations with the unions on a Megaw-based agreement the aim should be to secure provisions such that:-

- a. either side should have the right to withdraw from all or part of the agreement on giving 6 months' notice;
- b. either side should be free to propose a review of any of the provisions of the agreement at any time
- c. the right of the Government was recognised, on its own initiative, to invite the House of Commons to make a pay award for the Civil Service outside the inter quartile limits when it judged national economic circumstances to require this.

We also recommend that:-

- a. no separate or specific power should be sought to suspend the agreement, unilaterally or jointly
- b. the Government should not seek a minimum threshold below which agreed pay increases would not be implemented
- c. no specific provision is needed to provide for pay settlements lasting more than one year
- d. the Government should not seek to extend the role of the PIB into the exercise of judgement on the monetary or percentage value of comparative job security, recruitment and retention etc. It should, however, at an early stage

in the life of the PIB invite that body to study
and report on the possibilities for bringing these
factors into account in the most effective way.

Civil Service Pay, Pt 13

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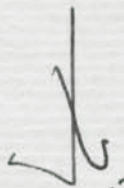
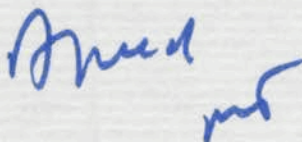
24 NOV 1982

MR SCHOLARcc Mr Mount
Mr WaltersCIVIL SERVICE PAY AND GRADING STRUCTURES

In his note of 22 November, Sir Robert Armstrong advises the Prime Minister that he has set up a group of Principal Establishment Officers to pursue the management issues thrown up by the Megaw Report.

Our interest in this relates to merit pay, to which Sir Robert refers at the end of paragraph 4 of his note. The Prime Minister will recall that we pressed hard, with her support, for a forthcoming attitude to this to be taken in our evidence, despite caution on the part of the civil service managers. In the event, our evidence was neutral: but Megaw came down firmly in favour - "our firm recommendation is that performance-related pay should be introduced at all but the most senior levels of the civil service".

As we try to move away from the concept of automatic annual increases in pay towards pay increases which are earned by profitability, productivity and individual performance, it is essential that the Government sets an example in relation to its own employees. It would help to ensure that the group established by Sir Robert looks at merit pay in an appropriately positive light, if you were to reply to the effect that the Prime Minister hopes that a workable form of merit pay can be prepared for Ministerial consideration as soon as possible.



23 November 1982

Ref. A082/0214

PRIME MINISTER

Pay and Grading Structures

I have set up a Group of Principal Establishment Officers under Management and Personnel Office Chairmanship to pursue the internal management issues involved in grading structure and pay structure, in the light of the Megaw Report.

2. The Fulton Committee in 1968 recommended the introduction of unified grading. After that Report unified grading was introduced for grades down to Under Secretary and equivalent, to produce the open structure; but it seemed at that time insuperably difficult to carry unified grading any further down.

3. I think that the time has come to have another look at this question. Even before Megaw the Government had told the Treasury and Civil Service Select Committee (Cmnd 8170, paras 34 and 35) that the present grading structure was not entirely satisfactory and that we would be looking to see what changes are needed. The Megaw Report placed a good deal of stress on the importance of coherent internal relativities, and their recommendations on pay banding push in the direction of a simpler and more unified grading system. It is not by any means certain that it would be right to move to unified grading, and there are various questions about how far it would be sensible from the management point of view to move and with what speed. But there are at least potentially considerable management advantages to be gained. There is a general wish among the Permanent Secretaries I have consulted that we should consider what our future policy should be on grading structure in relation to the management needs of the Service.

4. It will be for the Group to assess the case for a more unified grading structure and to consider the internal management implications, as well as those for costs and resources. Specific and separate decisions would of course be needed before changes involving additions to the Pay Bill could be implemented. An important aspect

1, Mr Butler ¹⁹²⁸
 2, Para Minutes
 A note for Mr Verker is also attached.
 23/11

MF

H



of the Group's work will be to consider how, within a more unified pay structure, provision can be made for flexibility to cater for, eg, recruitment difficulties and other management needs, including differences in personal performance. On this last point the Group will have the task of considering in detail how to fit merit pay into the pay structure.

5. These issues can be pursued separately from the negotiations about a new pay agreement. But close co-ordination will be needed between the new Group and the MISC 84 Official Group on Megaw. Arrangements are being made for this.

6. I am sending copies of this minute to the Chancellor of the Exchequer and the Lord Privy Seal.

RA

ROBERT ARMSTRONG

22 November 1982

① ~~MW Verker~~ *W. 20/11 Cont Service*
Thanks. Noted -

② PA

Mus 19/11

MR SCHOLAR


cc Mr Mount

MEGAW

Good !!

It is just possible that the Treasury will approach you with the proposition that Megaw need not go to E, as requested by the Prime Minister (and now planned for 2 December), but should instead be cleared in correspondence. Peter Le Cheminant was floating this possibility earlier, but I think I have put him off it.

As you know, there will be two papers: the report of MISC 83, which the Prime Minister has seen, and the further report of MISC 84 covering safeguards. I am quite sure that these merit collective discussion: I am prepared to recommend the safeguards paper as meeting the Prime Minister's principal concern, but our preference for avoiding structured pay determination systems remains.



19 November 1982

PART

12

ends:-

18.11.82

PART

13

begins:-

19.11.82

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