



C.N. Service

Ref. A05253

PRIME MINISTERCivil Service Inquiry: Government Evidence

## BACKGROUND

You are holding a meeting tomorrow afternoon to discuss the evidence which the Government should give to the Megaw Inquiry on Civil Service pay. Those present will include the Home Secretary, the Chancellor of the Exchequer, the Lord President of the Council, the Secretaries of State for Health, Employment and Defence, and the Attorney General.

2. It has already been established that the prime responsibility for the preparation of Government evidence will rest with the Lord President of the Council and that the CSD will be responsible at official level for clearing the detailed evidence with other interested Departments. Any difficult issues of principle or presentation, requiring Ministerial intervention, can be referred, as they arise, to you and the colleagues present at this meeting.

3. The terms of reference of the Inquiry are:

"Having regard to the public interest in the recruitment and maintenance of an efficient and fairly remunerated Civil Service, and in the orderly conduct of the business of Government and its services to the public; to the need for the Government to reconcile its responsibilities for the control of public expenditure and its responsibilities as an employer; to the need for good industrial relations in the Civil Service; for determining the pay of the non-industrial Civil Service; to consider and make recommendations on the principles and the system by which the remuneration of the non-industrial Civil Service should be determined, taking account of other conditions of service and other matters related to pay, including management, structure, recruitment and grading."

4. The basic document to be considered is the Lord President's minute to you of 10 July, and it will serve as the agenda for the meeting. In addition the Chancellor has called attention to the report produced by officials earlier in the year (E(81) 50) which discussed in detail the elements which might form part of the new long-term pay agreement with the Civil Service unions. That report was produced with an eye on the possibility that the Government might



decide to enter into direct negotiations with the unions without the benefit of an outside Inquiry. Since such an Inquiry has now been decided upon and announced, the report has lost its original raison d'etre. It still remains useful as a quarry and a set of signposts - for the Government's evidence to the Inquiry, but it is not usable in itself as evidence. The important thing now is to give the Lord President a clear steer on the material which should be worked up by his officials.

## HANDLING

5. You will wish the Lord President to introduce the subject and then to call on the Chancellor of the Exchequer to comment.

6. The important prior question is whether the Government is to attempt, through its evidence, to steer the Committee of Inquiry to a particular set of conclusions; or whether their basic concern is to ensure that the Inquiry looks at all of the matters the Government consider relevant and is then left free to come to its own judgement. The Lord President (paragraph 3 of his minute) clearly sees considerable merit in adopting the second approach. As he puts it, if the Government makes a set of detailed proposals for a new system to the Inquiry, the latter would in effect be being asked to sit in judgement on a Government scheme - a process which would seriously reduce the Government's room for manoeuvre when it has the report. Some of your other colleagues - probably the Chancellor of the Exchequer, for example - will be worried that, without guidance, the Inquiry may produce recommendations which the Government will not like. This risk is in any case inherent in the exercise: the Inquiry will come to its own conclusions and will make its own recommendations. The Government will have to offer positive ideas in its evidence; but presumably in terms which would not create intolerable difficulties if the outcome does not fully reflect these ideas.

7. Comments on the six sub-headings in paragraph 4 of the Lord President's minute are:-

- (a) Nature of the new pay system. Does the first sentence of the present text adequately reflect what the Government are trying to do? It is not so much a case of meeting "the requirements of varying economic circumstances" but of finding a new system which adequately reflects all



the factors which bear on pay determination in the private sector. It is the fear that the present system does not do this which lies at the heart of the criticisms which have been made of it. As to the other points in the sub-paragraph, the present Civil Service pay dispute has amply demonstrated the advantages of an ordered and agreed system which minimises the risk of industrial trouble. And the reference to a "committed" system is significant. Once, following the Inquiry, the Government has negotiated and signed up on a new pay agreement with its staff it will, by definition, be assumed to regard that system as "fair". Dispensing with it in any year thereafter will be that much harder. Moreover the unions will be pressing for a much greater degree of commitment by Government than in the past, and will be citing Government statements about the desirability of "legally-binding agreements" in industrial pay matters.

- (b) Economic circumstances. The Lord President's comments go to the root of the dilemma which has faced the Government since these matters were first considered in 1979. Cash limits for pay are only reconcilable with pay rates determined other than by fiat if the Government is prepared to take up the slack on numbers, other expenditure or by basing the cash limits themselves - before or after the event - as a realistic assessment of the outcome of the pay determination process. It is possible to ease the mechanical processes of accommodating pay and cash limits - for example, by adjusting the dates of decision-taking - but (as the decision for 1982 implicitly acknowledges) it is not possible, in the long run, to determine pay by cash limits alone.
- (c) Arbitration. The issue of arbitration will be central to the final outcome. The unions will press hard for the maximum commitment they can get both to the availability and implementation of arbitration; and the denial of arbitration, as an alternative to conflict, is not an easy stance for any Government to adopt.



- (d) Pay factors. This is the area where the Government will have the best hopes of saving money as between the new system and the old. It is however also the area where the technical problems (e.g. in finding the right data and properly interpreting it) are the most severe. This is the area in which the Inquiry will be most likely to seek outside professional help.
- (e) Pay comparisons. An early reiteration of the Government's view that "comparisons should continue to have a part to play" would help to counter the legacy of mistrust which will sour industrial relations in the Civil Service even when the present dispute is over. If the Government could say also, as the Lord President recommends, that the right comparisons are with rates of pay rather than changes in pay rates, that would help still more.
- (f) Other aspects. The points which the Lord President makes under this head will be familiar to your colleagues, and considered advice on them from the Inquiry would be helpful.

## CONCLUSIONS

8. You will want to aim at two conclusions:-
- (a) Acceptance of the Lord President's proposals as modified in discussion.
- (b) Reiteration of the procedural point that the Civil Service Department should ensure that any evidence it may give is adequately cleared at official level before submission to the Inquiry; and that any points of dispute, whether of substance or presentation, are referred to your group for resolution.

ROBERT ARMSTRONG

14th July, 1981