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cc Mr. Duguid

PRIME MINISTER

Evidence for the Civil Service Pay Inquiry

You are meeting with colleagues tomorrow evening to discuss evidence for the Megaw inquiry on the basis of the Lord President's note at Flag A. You will recall that at the beginning of the industrial action, before Easter, an official group was set up under Gordon Burrett's Chairmanship, to consider the elements of a new long-term pay agreement with the unions. At one point you instructed officials to complete that work before Easter, because it was hoped that it might form the way out of the dispute - but we decided to set up the Megaw inquiry instead. Nevertheless Ministers have never looked at the report of that group, which I now attach. It contains, at considerable length, as much wisdom as at present exists in Whitehall about the pay determination system we would like to have, and I think you would find it helpful before your meeting tomorrow to look at the four options we identified, which are contained succinctly in paragraph 70 (Flag B), and at the summary (Flag C).

The point which emerges most clearly from the work of that group, on which I sat, is that there are a number of fundamentally different ways of approaching Civil Service pay determination. In the light of that, I do not think the approach suggested by the Lord President to the provision of evidence for the Megaw Inquiry is appropriate. He suggests that rather than try to reach agreement on what we want, and then present it to the Inquiry, we should make a list of issues we want the Inquiry to look at, without giving them a very definite steer on the outcome. I think that we ought to try to use the Megaw Inquiry to get the system we want: otherwise it may well come up with a system that is too automatic and too oriented towards traditional comparability, to be acceptable to us.

So I think that the best outcome of your meeting tomorrow would be an instruction to officials (perhaps under Peter Le Cheminant's Chairmanship in his new capacity as Gordon Burrett's successor) to come up with a short list of issues on which Ministers really must reach a view before putting evidence to the Inquiry; and Ministers should then look at this again.

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It may be possible tomorrow to give a general steer to officials about the three issues which I would regard as being both the most important, and the hardest to resolve:

(i) Are we to have a committed system, under which pay scales are generated as a basis for negotiation subject to various provisions for the Government to override the outcome; or are we to have a purely procedural agreement, under which free collective bargaining would take place with both sides pleading any evidence whatever factors they chose. The Chancellor, I think, will speak in favour of the latter, because it is easier to reconcile with cash limits; but I think that only the former provides a reasonable chance of avoiding regular industrial action in the Civil Service.

(ii) How are the new market factors of recruitment rates, reduction rates and job security to be taken into account? This is the key to the difference we wish to see between the new system and the present PRU based system. The Lord President says that we should show ourselves ready to examine any recommendations by the Committee for reconciling these with a "stable system"; I think that we should make it clear to the Inquiry that we want a substantial degree of quantification of these factors to be included in the new system, with provision if necessary for gathering new data.

(iii) What will be the role for arbitration under the new system? The Lord President suggests that this should be left until we see what pay system emerges from the Committee's work; I think that, as we know from our experience in this year's pay negotiations, arbitration is such a fundamental part of the pay determination process that the circumstances under which it is used, and the extent to which it is binding, need to be carefully considered by the Government before evidence is put to the Committee. What seems to me the best approach, providing for only a limited role for arbitration, is contained in option C in the official paper.

There are quite a number of other important issues which officials should be asked to prepare for Ministerial decision.

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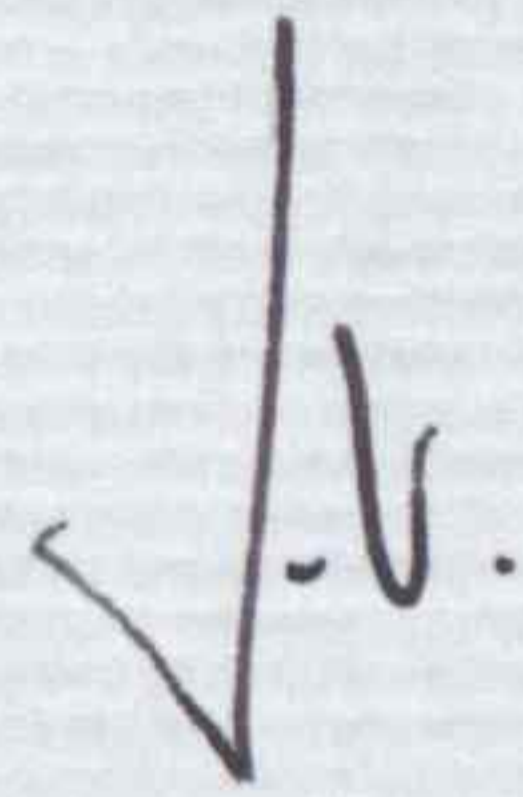
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These include future comparability arrangements; the possibility of some regional variations; paying less for young civil servants (Mr. Prior's point this morning); more flexibility to provide pay as a reward for merit; and no strike agreement. Some of these, and others, could be put to the inquiry in a neutral way, because the Government may feel it genuinely does not know what the best arrangements would be.



John Vereker

14 July 1981

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