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Prime Minister

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John Vercher has produced this

for tomorrow's 'tutorial' on Megaw.

MEGAW

M. Buckley works with P. Greyson in the

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

Cab Office

knowledgeable

about Megaw

and Civil Service

pay.

MUS 14/10

1. The Lower Limit of the Interquartile Range

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

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

2. The Four-Yearly Review

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

3. The Arbitration Arrangements

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

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4. Implications for other Public Services

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

5. Alternatives to Megaw

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

6. The Tactical Handling of the Unions

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

7. Possible Intermediate Positions

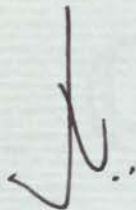
You may want to look to see if there is acceptable ground between you and the Chancellor, which might form the basis of a compromise position. The Megaw system could be made more acceptable

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

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



JOHN VEREKER

14 October 1982

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