

CONFIDENTIAL

CCBU

PRIME MINISTER

18 February 1986

CIVIL SERVICE PAY

Only two of the civil service unions have agreed to MEGAW: we have to decide whether to impose it unilaterally or let it fall. If we let it fall it will be more difficult to resurrect next year when the political pendulum will have swung back in favour of the unions.

For the moment, however, the Chancellor only wishes to decide whether to continue with the OME pay survey. This is likely to produce an interquartile range of roughly 5 1/2% to

7 1/2%
7-7 1/2

5 1/2-6

Forecast of course are rising faster than this.

The going settlement rate this year is 6+%, and it is highly unlikely that a lower figure could be achieved in the civil service (with or without MEGAW) without incurring expensive industrial action. If the OME are allowed to complete their work then we would almost certainly be forced to publish the result which would further undercut the chances of a low settlement.

By completing the OME work the Chancellor is therefore conceding a higher settlement. However, he wishes to delay the decision on MEGAW itself to keep open the option of making an opening offer below the lower quartile, although he accepts this is unlikely to make much difference to the final settlement.

Unless the Chancellor is trying to avoid undermining his pay assumptions in advance of the March budget, we can see little advantage in equivocating. Signing up on MEGAW now will:

- 1 show that the Government is consistent in its aims and concern for the civil service;

CONFIDENTIAL

CONFIDENTIAL

- legitimise a 6+% pay rise for the civil service in relation to pay restraint for the rest of the public sector.
- prepare the ground for the more difficult pay settlement in 1987.

We recommend that the OME work should be completed and MEGAW be unilaterally implemented.

Janet Evison.

pp. PETER WARRY