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For E
Lord Selkirk
cc JV
2
Prime Minister

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

ms 24/11

mt
Dear Michael,

MEGAW

pt 12
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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Civil Service

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

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① M. Verker *St. 20/11 Cont Service*
Thanks. Noted.

② PA

Mus 19/11

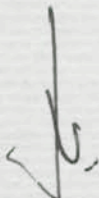
MR SCHOLAR

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

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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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