



Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

PRIME MINISTER

MEGAW AND 1983 PAY NEGOTIATIONS FOR THE NON-INDUSTRIAL
CIVIL SERVICE

Now that the pay conferences of the Civil Service unions are over (the IRSF, which is the last of these, finished yesterday), the way is clear for us to make known to the unions our readiness to enter into negotiations with them on Megaw. At E on 2 December we agreed that this should be done in a low key and general way. I propose that a letter should be sent to the unions at official level; that its contents should be made known to Parliament by way of an arranged PQ (which would be press-released); and that all staff should be told about it. I attach a draft of the letter to the unions which follows the lines of the draft circulated by my Private Secretary on 1 December. I do not think that it would be right for us to go into any more detail than does the present draft.

2. I also propose that we should send a letter to the unions about the 1983 pay negotiations. I suggest that this should be written at official level and I attach a draft. The unions posed a number of questions on next year's negotiations at a meeting with officials this autumn, following the announcement of the 3½ per cent cash factor for Civil Service pay, so that it would be natural for officials to respond now.

3. I think it is important that our staff should begin to realise the context within which we shall be negotiating in 1983. Departments would therefore be asked to circulate the letter generally to all

CONFIDENTIAL



staff and to take care over its presentation. We would make the letter available to the press if we were asked for it, although I do not suggest that we should directly seek publicity for it. We want to avoid the suggestion that this is a public relations exercise with an eye on external reaction, rather than a serious attempt to put the position properly before our staff in advance of our pay negotiations.

4. The unions have a meeting of their Major Policy Committee on 21 December to consider the outcome of the main pay conferences. They have a full Council meeting on 6 January. Since the NHS dispute now seems to be out of the way, I see advantage in sending the letter on the Civil Service pay negotiations to the CCSU before 21 December. The letter about Megaw would go to them at the same time.

5. I should therefore be grateful if colleagues could let me have any comments by the morning of Monday 20 December.

6. I am copying this minute and its enclosures to Norman Fowler, Janet Young and Norman Tebbit.

G.H.

16 December 1982

CONFIDENTIAL

DRAFT LETTER TO MR KENDALL (COUNCIL OF CIVIL SERVICE UNIONS)

I have now been authorised by Ministers to let you know that the Government is prepared to enter into negotiations with the Civil Service Unions with a view to agreeing an ordered pay determination system based on the recommendations of the Megaw Report. It is in the nature of an agreement of this kind that both sides have to accept some limitations on their freedom of action and both sides will no doubt seek safeguards from their respective points of view - including in the Government's case safeguards to the public purse and public policy.

Nevertheless the Government is prepared to accept in principle the broad approach of the Megaw recommendations and to negotiate on them with goodwill and the intention to succeed.

I hope that an early meeting can be arranged between the two sides to pursue our discussions on this basis.

CONFIDENTIAL

DRAFT LETTER FOR SIGNATURE BY MR LE CHEMINANT

To: W L Kendall Esq.

Council of Civil Service Unions

At our meeting on 13 October you and your colleagues put a number of questions to us arising from the Treasury announcement that the Government had decided to budget for sufficient additional cash next year to provide for average increases of 3½ per cent from due settlement dates in the Civil Service and certain other pay bills. Richard Wilding and I took your questions away and undertook to let you have a considered response. I am now writing to explain the position as we see it.

2. First, you asked us whether there would be room for genuine negotiations about pay with the CCSU next year. The answer is an unconditional yes. We intend the negotiations to be genuine and to conduct them with the aim of reaching an agreed settlement.

3. I know that you and your CCSU colleagues understand the way the financial planning system works. But others may not, and this may give rise to unnecessary fears and misunderstanding about the 3½ per cent figure. I would like therefore to use this letter to clarify matters for a wider Civil Service audience.

4. The normal processes of public expenditure planning, and the Parliamentary timetable, require Government to take decisions about the amount of money it can afford to set aside for pay and related matters well before the beginning of the year in which the money is to be spent. The Government is accountable to Parliament and the people for the money it spends - now over £120 billion a year - and cannot fulfil its obligations without planning ahead in a sensible and coherent manner. By convention the provision made for pay tends to be expressed in terms of a percentage increase from the baseline. But what is really being done is the earmarking of a total sum of money to meet all of the Government's pay and pay-related expenditures in the year ahead. In other words the decision taken is not about the size of the pay increase which the Government judges to be right for individual employees in the coming year, but about the allocation of total cash resources for a variety of purposes. Thus, as the Treasury statement of 1 October said, the 3½ per cent figure is not a "norm". Nor of course is it an incomes policy. Nor is it an entitlement. It is part of the operation of planning how much cash to provide for each component part of the services the Government makes available to the nation.

5. Moreover, within the cash limits which include pay, there is room for flexibility, as the experience of the past 2 years has demonstrated. The outcome for 1983-84 will depend on many factors including the number of staff which we find we need to employ in that year, the amount of overtime that needs to be worked, the improvements we make in general efficiency, and so on.

6. You may say that the room for manoeuvre nevertheless remains insufficient, when combined with the 3½ per cent figure, to accommodate the current ambitions for a pay settlement next year of some of your members. As Richard and I said at the meeting, it is important to see the matter in the context of a rapidly changing economic situation. In particular, much lower prospective rates of inflation are now becoming apparent. The rate of inflation as measured by the retail price index has virtually halved this year (from 12.0 per cent in January to [] per cent in November) and we estimate that it will have fallen further, to around 5 per cent, by next spring. In these circumstances a further significant fall in the level of wage settlements is to be expected.

7. The Government's view is that one of the reasons why the picture has changed is precisely because restraint on wages has been carried through, with beneficial effects, to the state of the economy as a whole. You are well aware of our economy's sharp deterioration in competitiveness in recent years, much of which can be attributed to excessive wage settlements. Indeed, compared with the position when the Government took office, the whole of the current loss in cost competitiveness of around 20 per cent directly reflects the fact that our wage costs have been rising faster than those of our competitors. The result has been a smaller share of markets both at home and abroad and the loss of 1½ million jobs. We must look to lower pay settlements in manufacturing industry for an immediate improvement in our competitive position but the private sector cannot be expected to bear the burden alone. Public service costs also impinge on the trading sector of the economy and must be controlled equally firmly.

8. I think that it is worth looking at the experience of other countries. Germany, for example, is widely regarded as one of the most successful industrial societies. A key feature in its success has been that pay settlements, in the public services and elsewhere, have tended to be modest. Rates of inflation, not surprisingly, have also tended to be low. It is not without significance that the German Government is planning no more than a 2 per cent increase in the cost of certain public service wage bills. The current rate of inflation in Germany is 4.9 per cent.

9. I am well aware of your concern to protect the living standards of your members. But if we are to maintain the progress already achieved, this frankly cannot be guaranteed for

y group. Living standards depend crucially on the health of the whole economy and thus on improved competitiveness. That can be secured only if there is widespread acceptance of the need for higher productivity and for moderation in pay increases. It means continued restraint in public spending, of which pay is a large element, to help create conditions for lower levels of taxation which will benefit individuals.

10. I now turn to the other main question you put at our meeting - the availability of arbitration next year if negotiations fail to lead to agreement. Frankly, it is too soon to answer that question. We shall be looking for a negotiated settlement. That is not a platitude. Recent negotiations, eg on London Weighting allowances, have shown that the Treasury and the Civil Service Unions can resolve wide differences of view by negotiation and flexibility. Let us not assume yet that we cannot do the same again.

11. You also asked whether, if the Government were in the event to agree to arbitration it would insist on reserving the right to ask Parliament to overturn any award. Again, I cannot answer yet. Though as you know the right of Parliament to have the last word on the spending of public money is fundamental to our constitution and our democracy.

12. Please forgive me for writing at such length, but the 1983 pay negotiations will be of great importance to the Service whose interests we all have at heart. You asked some very reasonable questions on behalf of your members. I hope you and they will find my response to be equally reasonable.

13. You will, I am sure, wish to make this letter available to your members. We would propose also to circulate it widely in the Service as a whole.

Prime Minister

(1)

MR SCHOLAR

Please see the Chancellor's
minute (attached).

cc Mr Mount

MEGAW AND 1983 PAY NEGOTIATIONS

(I thought there were both good letters - Agree to
their despatch, subject to X? Mes 16/12 *in*)

In his note of 16 December, the Chancellor suggests how we should approach the unions on Megaw, and on this year's pay negotiations.

I am quite content with the suggested letter to the Council of Civil Service Unions on Megaw. It is not necessary at this stage to go into the safeguards in detail, and far better to let them emerge in the course of negotiations.

I am less happy about the letter on the background to this year's pay settlement. I agree that it is desirable to have such a letter, in order to clear up misconceptions and lower expectations. But there are two places in which I think the letter goes astray:

- (i) In paragraph 5, Peter Le Cheminant goes out of his way to remind the unions that the 3½% cash limit includes room for flexibility "as the experience of the past 2 years has demonstrated". Since that experience has shown that about 1% extra can invariably be squeezed out of cash limits, this will be taken by the unions as a broad hint that a 4½% settlement is in the offing. I think this paragraph should be deleted.
- (ii) And in paragraph 6, I am doubtful about the desirability of measuring the 3½% pay factor against the prospective rate of inflation of 5%. It is fair enough to remind people that as inflation falls, so should expectations. But much of the effect is lost if we simultaneously point out that the pay factor is well below the lowest expectation of inflation. It would be better in this paragraph to replace the reference to 5% with reference to the fact that in this pay round so far, almost everyone is settling for less than they had last year, and to the CBI's survey which shows that one in ten settlements are zero. Peter Le Cheminant could go on to make the point (which the Chancellor has already made in our evidence of the TSRB) that the time is fast approaching when annual pay increases cannot be regarded as automatic.

JOHN VEREKER

16 December 1982

CONFIDENTIAL



SW

bcc. J. Vereker

10 DOWNING STREET

From the Private Secretary

17 December, 1982

Dear Margaret,

Megaw and 1983 Pay Negotiations for the
Non-Industrial Civil Service

The Prime Minister was grateful for the Chancellor's minute of 16 December, to which was attached two/draft letters to the unions.

The Prime Minister agrees to the despatch of these letters. She has commented that there may be a case for deleting paragraph 5 of the second letter, if the point there made about flexibility risks being taken as a broad hint that a settlement of, say, 4½ per cent, was in the offing. She has also suggested that a drafting change might be made in paragraph 6 of the same letter where, in the passage about the fall in inflation, it would be best not to prompt a comparison between the 3½ per cent pay factor and the prospective rate of inflation of 5 per cent. Would there not be a case for referring to the fact that in this pay round so far almost everyone is settling for less than they had last year, and to the CBI's survey which shows that one in ten settlements are zero; and also the argument that the time is fast approaching when annual pay increases cannot be regarded as automatic?

I am sending copies of this letter to David Clark (Department of Health and Social Security), Mary Brown (Lord Privy Seal's Office) and Barnaby Shaw (Department of Employment).

Yours sincerely,

Michael Scholes

Miss M. O'Mara,
H.M. Treasury

CONFIDENTIAL

RM

CONFIDENTIAL

JO



CIVIL SERVANTS - *see*

Prime Minister (2)

Caxton House Tothill Street London SW1H 9NAF
Telephone Direct Line 01-213 6400
Switchboard 01-213 3000

Ms 20/12

Miss M O'Mara
Private Secretary to the
Chancellor of the Exchequer
Treasury
Great George Street
LONDON
SW1

20 December 1982

Dear Margaret

MEGAW AND 1983 PAY NEGOTIATIONS FOR THE NON-INDUSTRIAL CIVIL SERVICE

TPM - with mcs?
My Secretary of State has seen the Chancellor's minute to the Prime Minister of 16 December and Michael Scholar's letter to you of 17 December.

He agrees with the Prime Minister's suggestion that there may be a case for deleting paragraph 5 from the second draft letter attached to the Chancellor's minute. He also agrees that a reference in paragraph 6 to the fact that many settlements in this round are less than the corresponding settlements in the last round would be helpful. However, on balance, he would prefer not to quote a figure of 5% by the spring but to say "will have fallen further by the pay settlement date". He feels that the substantial drop in the inflation rate that has taken place, and the prospect of a further substantial drop, is such an important and beneficial influence on negotiations in this round, both generally and for the Civil Service, that it should be stressed to Civil Servants despite the admitted risks in pointing to the RPI in the context of pay negotiations. He also fears that open references to zero settlements in the private sector, and to the arguments against annual settlements, might be counterproductive in the present context. He has no other comments on the drafts.

Copies of this letter go to Michael Scholar (No 10), David Clark (DHSS) and Mary Brown (Lord Privy Seal's Office).

Yours Sincerely
Felicity Everiss

MS F M EVERISS
Private Secretary

CONFIDENTIAL

210 DEC 1982

