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CC JV
Prime Minister (1)

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

Agree these

conclusions?

2 March 1983

PRIME MINISTER

[Handwritten signature]

Please see John

Verheer's note (attached)

THE MEGAW REPORT: SUBSIDIARY ISSUES RELATING TO PAY

MIS 3/3

The Ministerial Group on the Megaw Report (MISC 83) has considered a report by the parallel Official Group (MISC 84), which dealt with four groups of subsidiary recommendations relating to non-industrial Civil Service pay, namely: productivity pay, merit pay, decentralisation of pay bargaining and geographical pay variations. (The Official Group's report was circulated as MISC 83(83)1). This minute is to report to you on MISC 83's views on these issues.

2. On productivity pay the Official Group's report indicates the problems that would be involved with the non-industrial Civil Service and concludes that for the present, productivity bargaining as such should not be introduced, but that co-operation with productivity and efficiency improvements should be one of the factors taken into account in a general way in pay negotiations. MISC 83 endorsed this conclusion.

3. The report does not make any substantive proposals on merit pay. As you know, this is being considered by a group of Principal Establishment Officers under the chairmanship of the Management and Personnel Office. I understand that the Lord Privy Seal will shortly be circulating proposals, for discussion initially in MISC 83, although the final decision would clearly be for Cabinet. However, MISC 83 was firmly of the view that any initiative on merit pay should be handled separately from the 1983 main pay negotiations.

4. MISC 83 did not think that we had yet made sufficient progress in areas such as the Financial Management Initiative to be in a position to consider decentralisation a realistic option now, whether or not we want to pursue this at a later stage. MISC 83 noted that the main employing departments are involved this year in preparing the Government's

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pay negotiating position, as they were last year.

5. The areas of the report by officials where the balance of the argument seemed to MISC 83 to be most open to debate is that of introducing greater geographical pay variations (although Megaw came down firmly against this). On the one hand, local pay variations could create real difficulties from a management point of view, particularly if we were to try to use certain public services to give a lead on geographical variations rather than simply following local market conditions. There is an added difficulty that at present there are no adequate data on which to base local pay variations for the non-industrial Civil Service, and there is no guarantee that a locally varied pay system which followed the market would lead to a lower pay bill overall. On the other hand, the economic arguments for greater pay variation by locality are important and indeed underlie much of the regional problem identified in the recent interdepartmental Review of Regional Economic Policy. MISC 83 therefore concluded that the right approach would be to ask the proposed Pay Information Board to look, as one of its early tasks, at the question of establishing an adequate data base on local pay differences. The question whether to proceed could then be considered in the light of their report on this aspect.

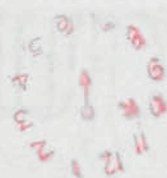
6. I should be grateful to know that you are content with MISC 83's recommendations on these questions.

7. I am copying this minute to members of MISC 83 and to Sir Robert Armstrong.

(G.H.)

2 March 1983

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2 - MAR 1983

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MJ



10 DOWNING STREET

From the Private Secretary

cc CO
MOD
DHSS
LPSO
DM
MOS, HMT (Hayhoe)
Mr le Cheminant
Mr Sparrow, CPRS.

7 March 1983

The Megaw Report: Subsidiary Issues
Relating to Pay

The Prime Minister was grateful for the Chancellor's minute of 2 March about MISC 83's views on productivity pay, merit pay, decentralisation of pay bargaining and geographical pay variations.

The Prime Minister is content with MISC 83's recommendations on these questions.

I am sending copies of this letter to the Private Secretaries to members of MISC 83 and to Richard Hatfield (Cabinet Office).

Mrs. Margaret O'Mara
HM Treasury.

M.C. SCHOLAR

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10 DOWNING STREET

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Prime Minister

Do you agree to MISC 83's

conclusions — summarised at

X in John Verker's note?

MUS 4/3

Yes
/ no

MR SCHOLAR

cc Mr Mount

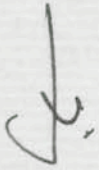
MEGAW: SUBSIDIARY ISSUES

The Chancellor's note of 2 March reports the conclusions of MISC 83 on four issues:

- (i) Productivity pay: I am sure the conclusion is right: productivity bargaining is impracticable in the non-industrial Civil Service;
- (ii) Merit pay: we must wait and see what Lady Young's proposals are, on the basis of the group of Principal Establishment Officers;
- (iii) Decentralisation: I regret the conclusion that decentralisation of pay bargaining is not a realistic option, but I fear it is right until much more far reaching changes are made in the nature of Civil Service financial management and accountability;
- (iv) Geographical pay variations: there are indeed practical difficulties, but it is most important to keep this alive, and I think the conclusion is right.

What the Chancellor does not say in his note is that most of this is purely hypothetical until we know whether we are likely to reach an agreement with the unions on a Megaw type system. The Prime Minister should know that negotiations with the unions have been proceeding very slowly indeed; that all the indications are that the unions have failed individually, let alone collectively, to reach coherent conclusions about what they want; and that there has been so far no sign that the unions will be willing to accept the fundamental basis of a Megaw system, which is the constraint of the upper limit to the interquartile range. So with a bit of luck Megaw will founder anyway: that will

not prevent us from pursuing issues which have benefit in their own right, such as merit pay and geographical pay variation.

A handwritten signature, possibly "J. H.", in dark ink.

3 March 1983