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Treasury Chambers, Parliament Street, SW1P 3AG
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PRIME MINISTER

MEGAW: NEW PAY ARRANGEMENTS FOR THE NON-INDUSTRIAL
CIVIL SERVICE

Michael Scholar's letter of 27 July records our talk about my minute of 22 July. Having thought further about what you said, it now seems to me that we really need an early meeting with those colleagues most concerned. We need to be clear whether we want to go on down the Megaw road, and if so how far. And if we want to get onto a different track, we need to decide how to make the switch.

2. I hope that a meeting can be arranged soon. I would be happy to circulate a further note on the points it might address. Meanwhile, the meeting of the Council of Civil Service Unions has been postponed from 2 August to 5 August, but we ought to say something to them before then.

3. The most urgent issue for us to consider is the one raised in Norman Tebbit's letter of 27 July. I take his points, but we need to decide whether we could in fact do nothing about data collection for the 1984 negotiations without being accused of going back on our commitment to negotiate on the basis of Megaw - of which some kind of data collection was a central part. (I mentioned Geoffrey Howe's statement last December, but I also have in mind the repetition of it in the Central Office contribution to the attached leaflet which the CCSU put out during the Election campaign.)

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4. As we agreed, I have had further work done on the draft statement which was enclosed with my minute of 22 July. The attached new version plays up the need to take into account affordability, market forces, etc. and omits the detail in paragraph 2 of the original version. I also enclose a brief note showing officials' thinking about data collection in respect of the 1984 pay negotiations. Both texts might be worth circulating before the proposed meeting, though I would hope that it would focus on the substantive issues, as well as the terms of the statement.

5. A copy of this minute goes to Sir Robert Armstrong.

John Kew,

PP.

N.L.

28 July 1983

(Approved by the
Chancellor.)

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DRAFT STATEMENT ON PROGRESS TOWARDS LONGER-TERM ARRANGEMENTS
FOR PAY DETERMINATION FOR NON-INDUSTRIAL CIVIL SERVANTS

The Government and the Council of Civil Service Unions both remain committed to the aim of working out in the light of the Megaw Report a new ordered pay system which will provide, for the longer-term, fair and sensible arrangements for determining pay for non-industrial civil servants.

2. There have been full discussions between the two sides on the possible shape of these new arrangements and useful progress has been made.

3. Any new arrangements must take appropriate account of financial and economic considerations; and enable factors other than information on outside pay to be brought to bear in the negotiations, including in particular recruitment and retention and other labour market factors.

4. A number of important issues have been identified which will need to be resolved before any new longer-term agreement can be reached and on which further discussion is required. It is clear that it will not be possible to settle all these matters in time for a new agreement to be brought into effect for the 1984 pay negotiations. The aim of the parties will, however, be to complete by June 1984 the preparation of a full draft agreement to enable the constituent unions of the CCSU to consult their membership before such an agreement is concluded.

5. The Government and the CCSU have considered what arrangements might meanwhile be made, consistent with progress towards a longer-term agreement, to provide a framework on an ad hoc basis for the 1984 negotiations. The factors to be taken into account in these negotiations will, in line with the recommendations in the Megaw Report, include the position on recruitment and retention in the Civil Service, the cost of any prospective settlement and the general economic background to the negotiations. In addition, it is proposed to explore the possibility of inviting the Office of Manpower

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Economics (OME) to collect on an agreed basis data on pay move-
ments in the 1983/84 pay round which can inform the 1984 pay
negotiations. The basis on which this might be done will be
the subject of further discussions between the Government and
the CCSU.

6. In the event of a negotiated settlement not being possible,
the question of recourse to arbitration before the Civil Service
Arbitration Tribunal and the basis on which this might take place
will be discussed at the time between the two parties.

7. Discussions will continue between the two sides on the
detailed arrangements for the framework of the 1984 pay negotiations
and on the content of a full procedural agreement covering the
longer-term position.

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DATA COLLECTION FOR 1984 PAY NEGOTIATIONS

The way in which the Office of Manpower Economics (OME) might set about collecting data on pay movements to inform (but not constrain) the 1984 pay negotiations would need to be agreed beforehand with the unions. Ministers would thus have to decide what they wanted; if no agreement could be reached there would be no data collection.

2. OME would be likely to collect data by approaching individual private sector firms directly for information, although some use might be made of published data. The period covered would be say August 1983 to March 1984.

3. Decisions and agreement would be needed on a number of points. These would include (a) the appropriate balance between the different sectors of the economy: manufacturing, service industries, financial sector etc, (b) the geographical spread, and the spread in terms of size, of the firms to be contacted; and (c) the extent to which separate data should be collected in respect of settlements at different earnings levels within firms.

4. Data collection would be limited to what would be needed for the 1984 Civil Service pay negotiations, and tailored to this end. Agreement would be needed on the extent to which data collected would be made public.

5. The data for 1984 would be concerned with pay movements only, and not with pay levels. OME would gather information on changes in basic pay rates only. On past form, changes in bonuses, overtime, etc are a relatively small and stable element in earnings. Outside changes in hours and leave would also be left out of the count. All information would relate to changes in non-manual pay rates.

6. A survey of pay levels would necessarily be a more complex exercise and would need to take account of factors such as changes in bonuses, overtime, hours and leave etc. Such a survey is not

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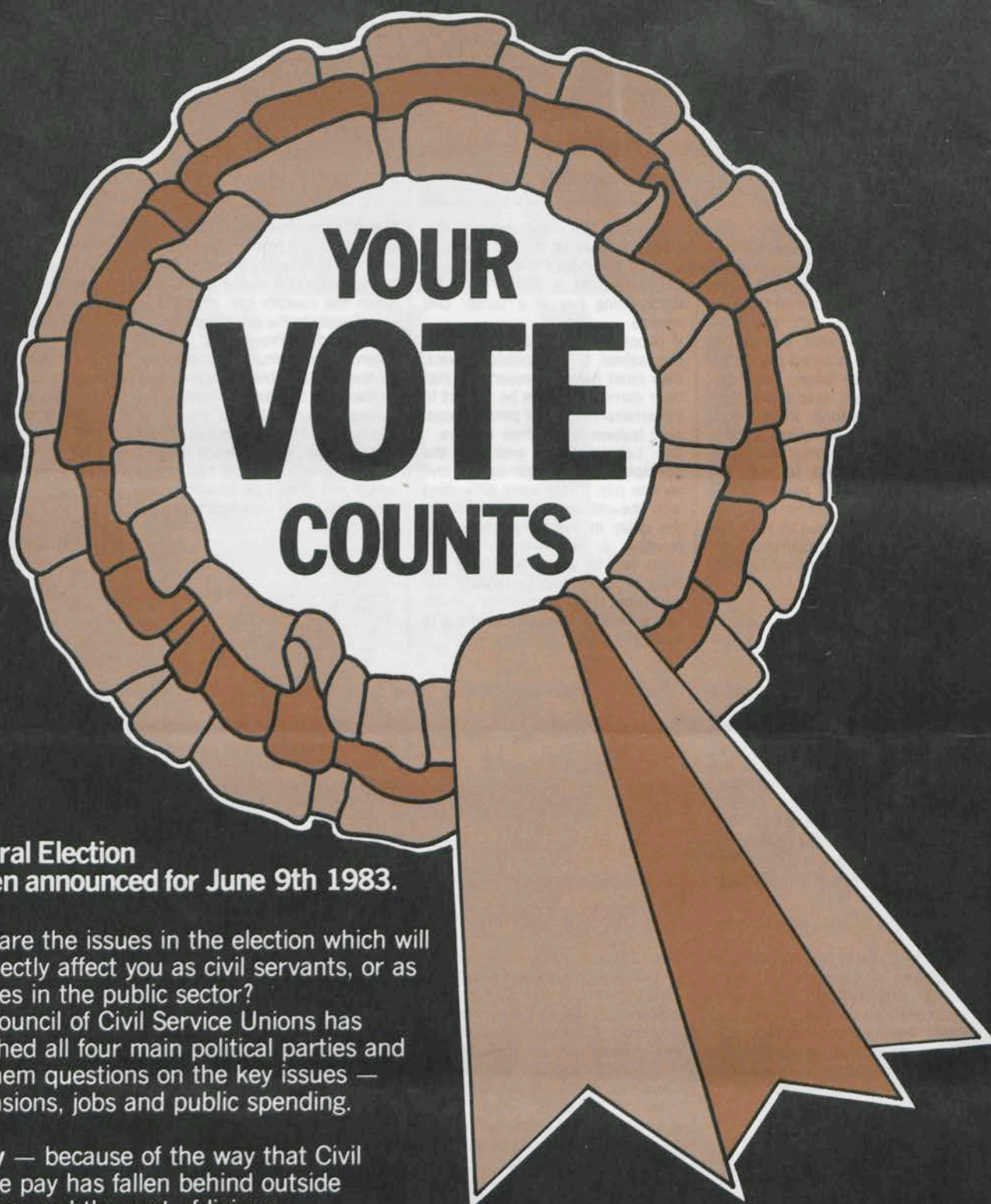
proposed for 1984, but of course if it were looked for in some future year the same need for agreed ground rules would apply.

7. One point for consideration and agreement is whether the OMEs work for 1984 should in some way be overseen or supervised by a "wise man" to ensure that the ground rules were respected.

8. The 1984 arrangements would set no necessary precedent for negotiations in later years.

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COUNCIL OF CIVIL SERVICE UNIONS



**A General Election
has been announced for June 9th 1983.**

What are the issues in the election which will most directly affect you as civil servants, or as employees in the public sector?

The Council of Civil Service Unions has approached all four main political parties and asked them questions on the key issues — pay, pensions, jobs and public spending.

- ★ **on pay** — because of the way that Civil Service pay has fallen behind outside earnings and the cost of living;
- ★ **on pensions** — because index-linking is under attack;
- ★ **on jobs** — because they have been cut by 100,000 and further cuts are envisaged;
- ★ **on public spending** — because it is being cut as a deliberate act of policy, and levels of public spending affect pay and jobs: they also crucially affect service to the public.

In this leaflet we reproduce the parties' replies. None of the Civil Service Unions is affiliated to a political party, and we are not making a recommendation about how you should vote.

But we do think that all our members, in both the Civil Service and the public sector, are entitled to know where the political parties stand on some of the most important issues affecting them.



PAY IN THE CIVIL SERVICE AND PUBLIC CORPORATIONS

For almost 25 years up to 1980, Civil Service pay was determined by reference to the objective of "an efficient Civil Service, fairly remunerated". This system of "fair comparisons" was scrapped by the present Government in 1980, since when increases in Civil Service pay have effectively been pre-determined by reference to the percentage amounts allowed for under the cash limits system. The Government and the Civil Service Unions are currently holding "without prejudice" discussions on the report of the Megaw Inquiry, whose central recommendation was a system which should "ensure the Government pays civil servants enough, taking one year with another, to recruit, retain and motivate them to perform efficiently the duties required of them at an appropriate level of competence."

Q1. What principles would your Party adopt for determining Civil Service pay?

CONSERVATIVE

The Government said last December that it accepted, in principle, the broad approach of the recommendations of the Megaw Report and was prepared to enter into negotiations with the Civil Service Unions with a view to agreeing a new ordered pay determination system based on them. Since then there have been wide-ranging discussions which both sides have approached in a spirit of goodwill. As we say in our Manifesto, "we are committed to fair and reasonable levels of pay for those who work in the public services" and we shall continue to seek fair and sensible arrangements for determining pay in the Civil Service.

LABOUR

We reject the conclusion of the Megaw Inquiry on the Civil Service. We do not regard the principle of the market as a sound basis for determining pay in a career civil service. If people are expected to commit themselves to the public service, they must have an assurance that their earnings will not be subject to the arbitrary whims of passing economic fashion during their careers. The Labour Party endorses the principle of fair comparison in civil service pay. There were difficulties with the old system. In particular, the delay in assessing and implementing a comparability system often led to anomalies. Low pay must be dealt with separately. We shall therefore consider more streamlined procedures, sticking to the same principles.

LIBERAL

The Alliance aims would be to consult with the TUC and CBI annually in order to obtain wide acceptance of the range of increase in incomes which the country can afford: this would apply to the private as well as public sector. Procedures for pay determination should be established for the whole public service as well as the Civil Service. External comparisons would play an important role with evidence collected by an independent body. Internal relativities are also important and union agreement should be sought to the use of job evaluation techniques in this context.

SDP

The Alliance's "Programme for Government" proposes a fair and systematic approach to pay in the public services. We intend to set up a single independent Assessment Board for public service pay to provide fair comparisons with the rates of pay of comparable groups in the private sector. Our objective will be to ensure that pay in the public services grows at the broadly similar rates to private sector pay.

Q2. Would your Party allow the Civil Service Unions the unilateral right of access to arbitration over pay?

It would not be right if a Government could be forced to arbitration and required to implement the award regardless of circumstances. Megaw concluded that access to arbitration should only be by mutual agreement. This matter is one of the subjects currently being discussed with the Civil Service unions.

Yes.

Yes, provided the unions agree to accept the findings. For its part the Government could only reject them after both Houses of Parliament had passed resolutions to that effect.

An Alliance Government will negotiate arrangements for arbitration with the public service unions and establish agreed procedures which will come into operation in the unlikely event that negotiations on the basis of fair comparisons break down.

Q3. How would your Party ensure that any cash limits do not pre-empt genuine negotiations on Civil Service pay?

Cash limits are part of the procedure for planning and controlling public expenditure and not an arbitrary limit on Civil Service pay. Cash limits have been reconciled with a negotiated settlement this year and an arbitration award which was fully implemented last year.

The cash limit system will be used by Labour as a system of monitoring expenditure not as a system of hidden pay fixing. The National Economic Assessment will involve Public Sector unions in discussions on public sector volumes of spending in the Autumn for the following financial year. Cash spending control totals will not be set until after pay negotiations in the following six months.

Any cash limits would be fixed in the light of the understanding reached between the Government and the TUC and CBI (see Q1). This should remove the risk of a major difference between the amount provided for in the cash limits and the size of the Civil Service pay increase.

An Alliance Government will not operate cash limits to restrict civil service pay rates. Pay will be determined in accordance with the principles explained above, and cash limits set accordingly.

Q4. What special steps would your Party take to eliminate low pay in the Civil Service?

The Civil Service cannot ignore pay differentials elsewhere. A Conservative Government could not properly use tax-payer's money deliberately to pay higher rates to civil servants than are paid by other employers. The surest way to improve the position of the lower paid is to increase the country's economic prosperity.

In addition to standard pay negotiations based on comparability we shall also allocate an amount of public expenditure to bring low pay up to a decent level. This will inevitably mean some compression of differentials but will not detract from the general increase in pay.

An Alliance Government should set a good example by its policy on low pay to its own employees. Our Joint Programme includes a series of measures designed to assist the lowest paid.

Again, the pay of different groups in the civil service will be determined by fair comparisons with equivalent private sector groups. We intend to tackle the problems of the lower paid groups by reforming the system of social benefits so that those in greatest need receive substantial supplements to their incomes. For example, under the new "basic benefit" system we are proposing, a working family with two children, currently earning £100 per week, will be around £24 a week better off.



PUBLIC SERVICE PENSIONS

In 1980, the Government established an inquiry under Sir Bernard Scott into the value of public service pensions.

The Scott Inquiry supported the principle of index-linked pensions, and concluded that the level of contributions paid by civil servants at that time was broadly correct.

Q5. Would your Party continue to index-link public service pensions?

CONSERVATIVE

The Conservative Manifesto states: "In the next Parliament, we shall continue to protect retirement pensions and other linked long-term benefits against rising prices. Public sector pensioners will also continue to be protected on the basis of realistic pension contributions".

LABOUR

Yes. We agree with the Scott Inquiry's conclusions that index-linking is a valuable principle which should be extended beyond the civil service — not restricted.

LIBERAL

Yes, and examine ways in which index linking could be extended to private sector pensions.

SDP

Yes.

Q6. What is your Party's policy on the effective level of employee contributions?

Decisions have already been taken on the appropriate employee contribution rates for a number of public sector groups. The other public service schemes will follow. The main aim will be to ensure that employees make a proper contribution to the costs of their pension benefits — the costs of index-linking should not be met by taxpayers generally.

We agree with the conclusion of the Scott Inquiry that the level of effective contribution was about right in 1980.

All public servants should contribute to the cost of their pension benefits to the same extent as employees in the private sector. An independent agency, such as the Government Actuary, should make the necessary calculations.

We have no plans to alter the present arrangements on employee contributions.



CIVIL SERVICE STAFFING

The present Government set itself a target of reducing Civil Service staffing levels by 100,000 up to April 1984. It is currently on target to achieve a total of some 630,000 civil servants by that date, a reduction of roughly 14% since 1979, and it is examining options for further 5% and 10% cuts in every department.

Q7. What is your Party's policy on current and future Civil Service staffing levels?

CONSERVATIVE

The Manifesto pays tribute to the high standards of administration and integrity of the Civil Service. We are on course to achieve our target for Civil Service numbers of around 630,000 by 1 April 1984. Thereafter, our aim will be to match departments' staffing levels to their functions. In doing that we will continue to seek economies by reviewing functions; further increasing efficiency; using new technology; and contracting out work to the private sector when to do so makes good management sense and represents value for money for the taxpayer (see Question 8).

LABOUR

Our plans will involve a major expansion of the civil service as part of the expansion of government activity. In particular, intervention on industrial and economic matters will revive areas of government activity. Our defence policy, while abandoning the use of nuclear weapons, may well involve increased employment in civilian defence staff in order to sustain our role in NATO. There are also important areas of the civil service, for example unemployment benefit offices, which are grossly understaffed as a result of recent cuts.

LIBERAL

Numbers in the Civil Service must be related to the tasks it is asked to perform. Arbitrary reductions in staff may actually mean less efficiency and effectiveness whereas more staff employed for example in the Inland Revenue on investigation would be cost effective in reducing tax evasion and avoidance. Quality of service and equity in administration must not be neglected in an anxiety to cut costs.

SDP

We plan to repair the damage which Mrs. Thatcher's cuts have done to the public services — health, housing, education — and have extensive programmes to raise standards in all these areas. It is unlikely that these objectives can be achieved without some increase in civil service staffing levels.



PRIVATISATION AND CONTRACTING-OUT

As one arm of its policy of reducing Civil Service numbers, the present Government has adopted a programme of privatisation and hiving-off of Civil Service functions. In the wider public sector, various functions have been privatised; the latest project (British Telecom) is nearing completion.

Q8. What is your Party's policy on the privatisation and contracting-out of Civil Service and other public sector functions?

CONSERVATIVE

Privatisation and contracting out are key elements in the Government's economic strategy. They open up areas to the discipline of market forces and promote competition and efficiency and improve the quality of service to the consumer. To this end the Government aims to privatise or contract out services whenever this will improve efficiency and effectiveness.

LABOUR

We opposed the privatisation of civil service activity and will consider ways of reversing the privatisation of the present government where possible.

LIBERAL

The Alliance believes in the mixed economy. Functions should be allocated between the public and private sectors according to which can perform them better. Many public services cannot be run at a profit; trade unions in the public services however should be invited to join with management in developing ways of measuring output and assuring quality of service so as to improve genuine efficiency and effectiveness.

SDP

We do not oppose the privatisation and contracting out of civil service and other public sector functions in principle, but we believe that the onus of proof — in terms of economy and effective delivery of the service in question — is on those who wish to propose any change in present arrangements.

Q9. What is your policy towards the privatisation of British Telecom?

Our aim is that British Telecom will become a private sector company. Reform of the nationalised industries is central to economic recovery. Most people who work in these industries work hard and have a great sense of public service. The Government has gone to great lengths since 1979 to improve the performance of the state sector. Nevertheless few people can now believe that state ownership means better service to the customer. So we shall continue our programme to expose state-owned firms to real competition and we shall transfer more state-owned businesses to independent ownership.

We are totally opposed to the privatisation of British Telecom. Telecommunication development is too important to be left to the market.

British Telecom is a classic case of the need for profitable parts of the enterprise to subsidise the less profitable but essential public service elements.

The Alliance is determined to get away from the incessant and damaging warfare over the ownership of industry and switch the emphasis to how well it performs. Thus we will not privatise British Telecom's main network but will seek alternative means — for example through an Efficiency Audit Commission — of increasing its efficiency and ensuring its future success.



PUBLIC SPENDING

The present Government said in 1979 that "public expenditure is at the heart of Britain's present economic difficulties" (CMND 7746), and it has accordingly attempted to make substantial cuts.

Q10. What is your Party's general attitude towards public spending; do you intend to cut spending further, or restore and expand services, or leave things broadly as they are?

CONSERVATIVE

The Government has promised to maintain a firm control of public spending and borrowing. But careful control of expenditure does not mean savage cuts. The Government's plans provide for public expenditure to remain broadly constant in real terms for the next 3 years. As the economy grows, however, public spending will be reduced as a proportion of national output. The ratio of public expenditure to the gross domestic product is planned to fall from 44 per cent in 1982-83 to 41½ per cent in 1985-86.

LABOUR

Our plans involve a major expansion of public spending. In many areas public spending is the only way to ensure care for those who need it. The public sector should also be active in other areas where the private sector, for whatever reason, is not providing an adequate service. The public sector is a major potential force for job creation in the economy, both within the civil service and throughout the economy. It will be one of the major elements in our plan for jobs.

LIBERAL

The Alliance proposes a £3 billion increase in public sector borrowing with a series of measures designed to get the economy moving again.

SDP

The Alliance is committed to selective increase in public spending and to restoring and expanding public services, both because it is essential to raise standards in health, housing and education following the damage that has been done over the last four years, and because it is obviously sensible to switch the money which is paid to people to do nothing into payment for useful jobs instead.

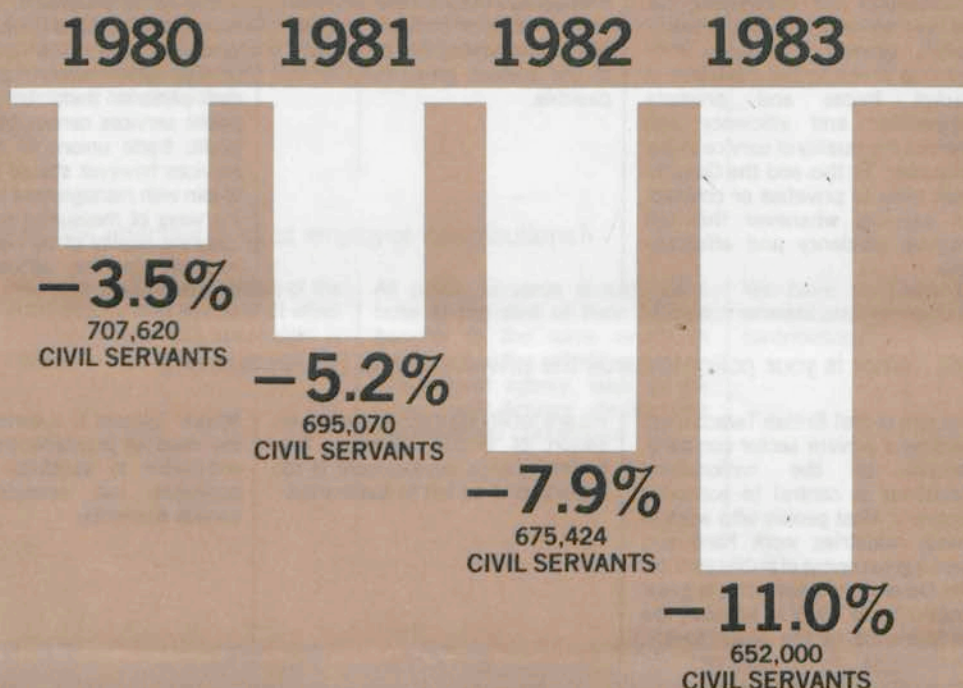


THE LAST 4 YEARS

Jobs: Civil Service jobs have been reduced by 100,000 since 1979. Already 33,000 jobs have been lost under privatisation. There are further threats to British Telecom, to Royal Ordnance Factories, to Companies Registration and to all kinds of common services such as cleaning and catering, typing and reprographics. The Cabinet agreed on 16 December 1982 that "departments should aim to contract out more of their work". Departments have now been asked to report on further cuts.

CUTS IN CIVIL SERVICE JOBS

1979 = 100 NUMBER OF CIVIL SERVANTS: 733,176

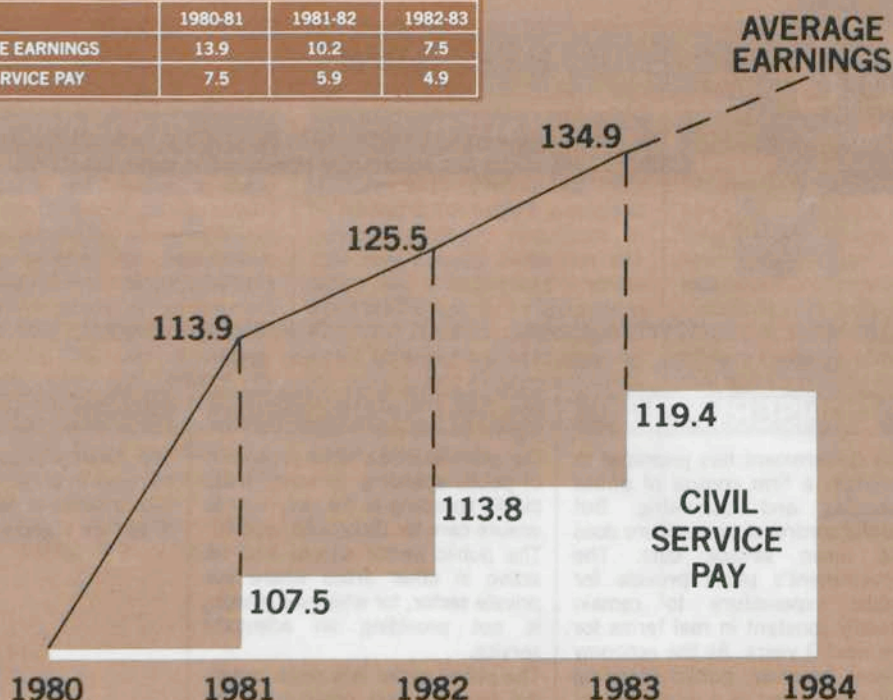


AVERAGE EARNINGS AND CIVIL SERVICE PAY 1980-1983 (1980 = 100)

Pay: Since 1979 Civil Service pay has declined in relation to earnings and to prices.

Low Pay: Two thirds of civil servants earn less than average earnings, one third are below the poverty line. But the Treasury said at arbitration in 1982 that "pay is a matter for the market place and social needs are the province of the social security system".

PERCENTAGE INCREASES			
	1980-81	1981-82	1982-83
AVERAGE EARNINGS	13.9	10.2	7.5
CIVIL SERVICE PAY	7.5	5.9	4.9



Sources: Average earnings: Average Earnings Index (Department of Employment (1983) Average earnings figure: late March figure)



ISSUES FOR ELECTION CANDIDATES



You have now read the parties' answers and know how they stand. No doubt you will also want to seek the views of your own parliamentary candidates about both local and national Civil Service issues.

The three main issues are pay, pensions and jobs. The kinds of questions you might ask your candidate are:

on pay: can civil servants expect fair treatment on pay from your party?

on pensions: do you agree with the Scott Inquiry's conclusion that index-linking of public service pensions should continue and be extended to all pensions?

on jobs: what is your view of Civil Service staffing levels, particularly as they affect standards of service in this constituency?

