



P.01088

PRIME MINISTER

Megaw: Meeting on 5 September

BACKGROUND

Before the Summer Recess there were exchanges between you, the Chancellor of the Exchequer, and the Secretary of State for Employment on the current negotiations with the Civil Service trade unions on the recommendations of the Megaw Committee for a new long-term system for settling the pay of the non-industrial Civil Service. The main point at issue was that the Chancellor of the Exchequer wished to tell the unions that the Government would be prepared to explore the possibility of setting up formal arrangements for collecting data on private sector pay movements as background to the 1984 Civil Service pay negotiations; the Secretary of State for Employment expressed strong misgivings about the wisdom of this. The relevant arguments are set out in the Secretary of State for Employment's letter of 27 July and the Chancellor of the Exchequer's minute of 28 July.

2. In the event, no statement was made. Exploratory discussions with the unions have continued. The current state of affairs is described in the Note by the Chairman of the Official Group on Megaw, circulated with the letter of 2 September from the Chancellor of the Exchequer's Private Secretary to yours.

3. The Note reports that the unions have raised three main issues.

a. That they should have access to the detailed data collected by the Pay Information Board (PIB) proposed by Megaw.

b. That the level of Civil Service pay should always lie between the 40th and 60th percentile of the range of pay for outside staff in comparable employment, instead of the much



wider range (25th to 75th percentile) recommended by Megaw.

c. That the Government should allow unilateral access to arbitration; and that Parliamentary override of an arbitration award should be possible only in clearly defined circumstances such as the operation of a national pay policy. (The Government's position is that access to arbitration should be permissible only if both sides agree; and that the Government must have an unfettered right to seek Parliamentary override. Megaw recommended against unilateral access; but he also recommended that the Government should be committed to accepting the outcome of arbitration - i.e. that any Parliamentary override should be at the initiative of Parliament itself, not the Government).

The unions are said to be looking for a statement of the Government's views on these issues, and the handling of the 1984 pay negotiations, in time for a meeting which they are holding on 6 October.

4. The Chairman of the Official Group appears to favour not bringing these issues to a head, but instead seeking to make gradual progress towards a Megaw-type system by offering some form of data collection as an input to the 1984 pay negotiations.

5. You will recall that in discussions with the National Health Service (NHS) trade unions the Government has refused to entertain the possibility of collecting agreed data on outside pay movements as an input to NHS pay negotiations, on the grounds that this would concentrate attention undesirably on comparability rather than recruitment and retention and what can be afforded. The Chairman of the Official Group (Annex A to his Note) recognises that an offer of data collection to the Civil Service unions could make this position more difficult to hold in the NHS and elsewhere, but suggests that the risk of repercussions would be reduced if the data were linked to specific Civil Service grades.



MAIN ISSUES

6. There are two main issues.
- i. Does the Government wish to work towards a Civil Service pay system based on the Megaw recommendations?
 - ii. In the light of the answer to i., what are the next steps in the negotiations with the trades unions?

Do we want a Megaw system?

7. There are strong arguments for continuing to work towards a Megaw system. The Megaw Committee was established on the Government's initiative. Its recommendations are widely regarded as sympathetic to the views deployed in evidence by the Government. The Government has announced its acceptance in principle of the recommendations; and this was repeated during the General Election campaign. It would be extremely difficult, and damaging to staff relations, now to abandon the attempts to agree a system based on Megaw. Moreover, Ministers have seen advantage in establishing a stable system for settling Civil Service pay; there is no ready alternative to Megaw; and it is not easy to see how one could be created.

8. Nevertheless, a Megaw system will certainly have features which Ministers will find unattractive: in particular, it is bound to include formal arrangements for collection of data on outside pay movements and levels; and it is bound to commit the Government, save in exceptional circumstances, to making pay offers in line with some measure of outside pay movements (in practice, almost certainly the lower quartile will be the floor). If Ministers consider that they will not in practice be able to accept these features, it would be better to terminate the negotiations quickly: the longer they go on, the greater the expectations of progress, and the greater the disappointment (and risk of accusations of bad faith) from ultimate breakdown.



9. So far, Ministers have taken the view that they are willing to work towards a Megaw system in good faith, but that they are not prepared to make significant concessions overall in order to achieve it. The meeting on 5 September seems likely to continue to take that view.

Next steps

10. The Chairman of the Official Group identifies three main courses of action. He dismisses stalling (paragraph 12c of his Note) on the grounds that it will be regarded as a refusal to negotiate seriously. That seems plausible.

11. Of the remaining options, the first would be to make a clear statement of the Government's views on the issues mentioned in paragraph 3 above. It would probably be possible to be reasonably forthcoming on the first (as the Chairman of the Official Group points out, the Government itself is unlikely to want the PIB to deliver its judgments without consultation or question); but a Government statement at this stage on the second and third would have to be uncompromising. The likely outcome would be one or other of the following.

a. It is conceivable, but unlikely, that the unions would acquiesce. If so - unless Ministers should have decided that a Megaw system is, on reflection, undesirable - well and good.

b. More probably, it would lead to a breakdown in the negotiations. In this event, an important weakness in the Government's position would be that it could not claim to be standing four-square on the Megaw recommendations: on arbitration, it would be taking a significantly harder line than Megaw. It would therefore risk being accused of deliberately wrecking the negotiations by introducing a departure from the Megaw recommendations which it knew was bound to be unacceptable to the unions. The Chairman of the Official Group also says that breakdown would mean that there would be "no framework for either the 1984 negotiations or for the longer term". Ministers will wish to consider how



serious a difficulty this would be. Most forms of employment do not have a "framework" in this sense, and manage well enough without it. But there are special considerations in the case of the Government and the Civil Service which Ministers have previously regarded as making a "framework" desirable.

12. The second main option is to try to make some progress towards a Megaw-type system by introducing piecemeal changes: the particular possibility mentioned in the Note is the possibility of data collection for the 1984 pay negotiations. An important difficulty about this is that data collection is not a free-standing part of the Megaw system. The logic of the Megaw recommendations is that each side should accept limitations on its freedom (in particular, it ^{must} bargain within the inter quartile range of outside pay settlements). The limits must be set objectively by a third party: hence the recommendation for data collection by a PIB. Divorced from the rest of Megaw recommendations, data collection has no obvious merit; and offering it to the Civil Service would make it more difficult to refuse it to other public service groups. It might also be difficult to drop later if the negotiations eventually failed. The Government would implicitly have accepted the relevance of data collection to pay determination, even outside a Megaw system; and it is seldom easy to argue that ignorance is preferable to knowledge. The difficulties are not necessarily insuperable; but Ministers will wish to weigh the risks carefully.

13. An approach which might be less risky would be to link the possibility of data collection explicitly to acceptance of one or more of the key Megaw recommendations: the most natural possibility would be to link it with the restriction of bargaining to the inter quartile range. This would force the unions to accept that they could not expect to do significantly better than the private sector. On the other hand, it would commit the Government to offering at least the lower quartile of private sector pay movements in 1984. Some Ministers will not welcome such a commitment. But if there is to be a Megaw system at all, it will have to be given sooner or later: if it is unacceptable in principle,

as argued in paragraph 8 above, it would be better to abandon the attempt to negotiate a Megaw system.

Further work

14. The options before Ministers are described in fairly general terms and appear to need further elaboration before a specific proposition could be put to the unions. In particular, if Ministers favour offering some form of data collection, important questions of detail (discussed in Annex A to the Note) will need to be settled. Moreover, presentation to the unions will need careful consideration. You will probably wish to invite the Chancellor of the Exchequer to arrange for officials to produce further advice for Ministers in the light of the Conclusions of the meeting.

HANDLING

15. You will wish to ask the Chancellor of the Exchequer to open the discussion by outlining the current state of discussions with the trade unions, and his views on the right way forward. You might then invite the Secretary of State for Employment to speak, both on the issue of data collection and on negotiating tactics. The Secretary of State for Social Services will wish to comment both as a major employer and from the standpoint of possible repercussions in the NHS. The Secretary of State for Defence and the Minister for the Arts will have views, in particular, on the likely effects of the various possible courses on staff relations and morale.

CONCLUSIONS

16. You will wish the meeting to reach conclusions on the future handling of the negotiations with the Civil Service trades unions on Megaw and probably, in the light of those conclusions, to invite the Chancellor of the Exchequer to arrange for officials to produce further advice on detailed tactics and presentation in the light of those conclusions.

PLG
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Cabinet Office
2 September 1983