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

5 August 1983

W F S Rickett Esq
10 Downing Street

mas(or)
meeting fixed for 1800 on 5/9.
WJL
8/8

Dear Willie,

MEGAW

In your letter of 2 August you confirmed that the Prime Minister was content that officials should offer civil service union representatives the draft statement attached to the Chancellor's letter of 1 August to the Secretary of State for Employment. A version of the text, revised to reflect Mr Tebbit's reply of 2 August, was accordingly offered to the unions, whose reaction was to prefer no statement at all, and to call off their special Council meeting on 6 August.

The union representatives have not pressed to know the Government's intentions for the 1984 negotiations. In part this is because they expect that the Government will be in a position to let them have views on this, and on wider matters concerning Megaw, in the early autumn. The Chancellor hopes that the Ministerial discussion envisaged for the autumn can be arranged for September.

Copies of this letter go to the Private Secretaries to members of MISC 83, and to Sir Robert Armstrong.

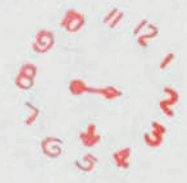
Yours sincerely,
John Kerr

J O KERR
Principal Private Secretary

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5 AUG 1953



COMMUNICATIONS SECTION

cc: MOD
DHSS
EMP
Min/State, Privy
Council Office
(Lord Gowrie)
Min/State, HMT
(Mr. Hayhoe)
Mr. E.P. Kemp
(HMT)

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bc Nick Owen

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10 DOWNING STREET

From the Private Secretary

2 August 1983

MEGAW

The Prime Minister has seen the Chancellor of the Exchequer's letter of 1 August to the Secretary of State for Employment.

She is content with the draft statement attached to his letter. She agrees that the statement should contain no reference to data collection; that Ministers will need to consider this issue in the autumn; and that the unions should be told that the Government have not yet taken a view. She also agrees that it would be a mistake not to offer a statement on the lines of the draft attached to the Chancellor's letter, but that it would not be a disaster if no statement, or no joint statement, could be agreed.

I am copying this letter to the Private Secretaries to members of MISC 83 and to Sir Robert Armstrong.

W.F.S. RICKETT

John Kerr, Esq.,
HM Treasury

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RM



Caxton House Tothill Street London SW1H 9NF

Telephone Direct Line 01-213.....6400.....

Switchboard 01-213 3000

The Rt Hon Nigel Lawson MP
 Chancellor of the Exchequer
 Treasury
 Great George Street
 LONDON SW1

August 1983

D. Nigel

MEGAW

Thank you for your letter of 1 August. I am glad to see that you are prepared to leave over until the Autumn further consideration of whether data should be collected for 1984; and to make no reference to data collection in the statement.

However, I fear that paragraph 5 of the draft statement might be taken as it stands to imply that data is likely to be collected. What other "arrangements" could the Government have in mind? I would prefer a paragraph which simply said that discussions will be held with the unions about the way the 1984 pay negotiations should be handled. I agree that if the union ask about data collection, officials should say that we have not yet taken a view.

We can leave further discussion of this issue until the Autumn. But I am sure you would agree that neither Geoffrey Howe's statement of 21 December 1982, nor our Election statement recorded in the CCSU pamphlet, in any way commits us to collecting data in advance of "agreeing a new ordered pay determination system".

I am copying this to the Prime Minister, other members of MISC 83, and Sir Robert Armstrong.

Geoffrey Howe

CIVIL SERVICE : Pay
PT 13

-2 AUG 1983

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Treasury Chambers, Parliament Street, SW1P 3AG

01-233 3000

The Rt Hon Norman Tebbit MP
Secretary of State for Employment
Caxton House
Tothill Street
London SW1

Note

This is consistent
with what the prime
minister agreed
yesterday.

✓ NO

(with my
note for the file
yesterday)

WM
2/8

1 August 1983

New Secretary of State,

MEGAW

I have been considering the points raised in your letter of 27 July, Michael Scholar's letter of 27 July, and Gray Gowrie's minute of 28 July, on Megaw.

... 2. I enclose a copy of the proposed draft statement, which has been strengthened as the Prime Minister wished. In view of your comments, it does not now refer to the possibility of data collection in the context of the 1984 Civil Service pay negotiation. Please let me know quickly whether you are content with it.

... 3. Since we shall almost certainly have to revert to this issue in the Autumn, I ought perhaps to record now that I doubt whether we will be able in practice to avoid any data collection for next year. We are at present strongly committed to discussions with the unions on the basis of Megaw; I attach for the benefit of colleagues copies of Geoffrey Howe's statement of last December, and an extract from a pamphlet which the CCSU put out just before the Election.

4. The proposals in my minute of 22 July were essentially designed to provide time for us decently to explore the Megaw route in detail in the light of our commitments, so as to consider whether in due course we want a solution based on Megaw; and, if not, to find a way out which honours our pledges. The breathing space would also be used to consider what alternatives we would look for in place of a Megaw-type solution.

5. Given the strength of our commitments I doubt if we shall want - or be able, without a major row - to break off Megaw negotiations before we reach the 1984 negotiations. There are many issues on which discussions on Megaw could in due course collapse (the question of arbitration and override, and the question of the transitional period

/are the most



are the most obvious ones). But for us to break on the principle of data collection on an agreed basis would in my view be a tactical mistake; for it is central to Megaw. Thus I find it hard to see how, consistent with our commitments, we could refuse even to look at this possibility for 1984. I agree with what Gray Gowrie says on this point, and also with his conclusion that the sort of agreed data collection we had in mind would not necessarily be harmful.

6. Of course you are right to point to the wider problems involved in data collection. But I doubt whether what we might want to go for would be as damaging as you imply. The vital point would be to limit the relevance of the data collected to the Civil Service so as to prevent its being prayed in aid by other groups; this could be done, for example, by using job evaluation based on a few key Civil Service grades. Megaw has a number of pointers here which would be helpful. If and when we come to it, my officials would of course consult yours over the details. And of course it had never been my suggestion we should commit ourselves to data collection for 1984 willy-nilly; all the elements would have to be agreed with the unions, and it would not be difficult to fail to reach agreement.

7. All that is for discussion in the Autumn. But meanwhile there are two immediate points on which we need to be clear.

8. First, it is certain that, when later this week, the unions see the sort of statement now proposed, they will ask about our intentions in respect of the 1984 negotiations. I do not think it would be right for officials to say that we rule out data collection for 1984: this would cast doubt on our Megaw bona fides. I suggest they say that we have not yet taken a view.

9. Second, it may be that the unions will ask for changes in the draft statement itself. We shall have to treat any such suggestions on their merits. It would not be a disaster if at the end of the day there were no statement, or at least no joint statement, at all. But I think it would be a mistake not to offer a text.

10. I am copying this to the Prime Minister, other members of MISC 83, and Sir Robert Armstrong. If you, or any of our other colleagues, disagree with the points in paras 8 and 9 above, or with the enclosed text, please let me know by tomorrow night.

Yours sincerely,
J. Lawson

PP. NIGEL LAWSON

(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 (CCSU) 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 has 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. 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. Discussions will take place between the Government and the CCSU as to what arrangements, consistent with progress towards a longer-term agreement, might be made to provide if necessary an ad hoc basis for the 1984 pay negotiations.

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EXTRACT FROM HOUSE OF COMMONS OFFICIAL REPORT OF 21 DECEMBER 1982

Mr Brown asked the Chancellor of the Exchequer whether he had any further statement to make about the report of the Megaw Inquiry into Civil Service pay?

Chancellor of the Exchequer (Sir Geoffrey Howe): The unions have been informed that the Government is prepared to enter into negotiations with them 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.



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.