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

2 September 1983

Michael Scholar Esq
10 Downing Street

Dear Michael,

MEGAW

The background papers to the meeting which the Prime Minister is holding on Megaw on 5 September are the Chancellor's minute of 22 July and the subsequent comments of other Ministers. As a further contribution to Monday's meeting, I enclose a note from the Chairman of the Official Committee on Megaw, which has been discussed amongst Departments. It sets out the present position and the main options now before the Government.

I am copying this letter to the Private Secretaries of those Ministers who are attending the meeting on Monday, and to Richard Hatfield (Cabinet Office).

Yours sincerely,

Margaret O'Hara

MISS M O'MARA
Private Secretary

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LONGER TERM PAY ARRANGEMENTS FOR NON-INDUSTRIAL CIVIL SERVANTS: OPTIONS IN NEGOTIATIONS WITH THE UNIONS

REPORT FROM THE CHAIRMAN OF THE OFFICIAL GROUP ON THE MEGAW REPORT (MISC 84)

Introduction

In December 1982 the Government announced its acceptance in principle of the broad approach of the Megaw Report and its preparedness to enter into negotiations with the unions on the basis of its recommendations. This commitment was repeated in the course of the recent election campaign. Over the last six months there have been extensive exchanges between Treasury officials and the Civil Service unions.

Issues on Longer Term Arrangements

2. There are very many matters to be settled if a new long term agreement based on Megaw is to be reached with the unions. But recently discussions have concentrated on 3 points to which the unions attach particular importance.

3. These points are:-

- (a) Transparency of the activities of the proposed Pay Information Board (PIB);
- (b) Width of the possible bands of outside earning levels within which Civil Service pay should lie (coupled with the unions' desire for a transitional period during which pay levels would be put "right" as a basis for the operation of the new system);
- (c) Unilateral access to arbitration and the question of Government override of an arbitration award.

4. The unions' position on (a) is that they wish to have the right of access to the detailed data which the PIB would collect. This goes beyond what Megaw envisaged; but it may be that Megaw was not very realistic in thinking that the attitude of the unions to the role of data in pay bargaining could be changed overnight. And what ultimately matters is not the unions' role in the process of handling data, but the fact that it would no longer be accepted by both sides, as under pay research, that civil servants should always remain in a

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certain position (the median) in a "pay league". There could, moreover, be certain advantages to the Government in agreeing on greater "transparency" for the PIB's operations: it would not necessarily suit the Government to have an independent and authoritative PIB working in secret consulting neither party on its interpretation of the data it collects. Officials believe it would not be worth foundering on this issue alone if a satisfactory agreement could be reached on the other elements in a new system.

5. (b) is much more difficult. The essence of Megaw - and one of its main attractions for the Government - is that the pay increase for civil servants in any one year should reflect outside pay movements in that year. Any action on pay levels would need to be accommodated within that constraint. On the face of it, there are few attractions in narrowing the ranges within which levels might "legitimately" lie under a new pay system. This begins to look like a return to straight comparability. Moreover, it is the much greater width of the ranges of levels than under pay research which give the best guarantee that the launching of the Megaw system would not require any significant prior adjustments to ensure that all Civil Service pay levels lay within the prescribed ranges. There is a further fundamental problem on levels insofar as the unions are absolutely convinced that Civil Service pay levels have fallen badly behind and must be put "right" over a transitional period during which the normal "movement" constraints would be modified.

6. (c) is also very difficult. The unions cling to the right of unilateral access to arbitration, and are only prepared to discuss the possibility of a Parliamentary override of an arbitration award in very clearly defined circumstances such as the operation of a national pay policy. Ministers, on the other hand, decided in E Committee on 2 December 1982 that any new arbitration agreement must provide for access only where both parties agreed; and that in addition, the Government would need to retain the right to ask Parliament to overturn an arbitration award in unspecified circumstances. The present positions of the two sides are therefore wide apart here.

7. Against this background there is no prospect of early agreement on detailed new pay determination arrangements for the Civil Service. This does not mean that such agreement could not be reached in the

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longer run, perhaps by development in stages, particularly if moderate opinion continues to reassert itself in the unions and their negotiators as a result have more room for manoeuvre than present Conference resolutions permit them.

8. It is likely, however, that a statement of the Government's views on the points at (a)-(c) above would lead quickly to a breakdown in the present discussions because it would highlight the existing gulf between the parties. One way to avoid this, and to sustain the negotiations on a long term agreement, would be to take a positive step in the direction charted by Megaw in the procedures for the 1984 pay negotiations. This could take the form of some limited data collection on pay movements to inform (not constrain) the 1984 negotiations: this is something for which the unions are already asking.

1984 Pay Negotiations

9. Such a step would be seen by the unions and by civil servants in general as a tangible sign of progress in the discussions on a new pay determination system. (Data collection would certainly form an important element in any long term arrangements which could be agreed with the unions.) At the same time, neither side would be bound by the formalities of a full agreement: it would allow a trial run of one key aspect of a Megaw-based system. There is a good chance that if the unions were offered a data collection exercise to inform the 1984 negotiations they would not press now their request for a prior indication from the Government of its willingness to allow access to arbitration, if necessary, in 1984.

10. This option is worth serious consideration. Certainly the availability of any data produced on an agreed basis might de facto affect the Government's room for manoeuvre. It would make it more difficult to achieve an agreed settlement below the lower quartile figure. On the other hand, there is little reason to suppose that the unions would be prepared to settle for less next year in any case, and this is no more than the constraint which the Government has implicitly accepted as part and parcel of the Megaw approach. However, an important difference from Megaw is that "informed" pay bargaining of this kind would leave the Government free if it chose to do so (eg because it thought this was justified on grounds of affordability) to impose a settlement below the lower quartile without

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formally breaking a new pay agreement, or invoking safeguard clauses at the outset. The Government would be free to decide at the time of the negotiations whether to seek an agreed settlement, impose one, or permit arbitration and if so, on what basis.

11. The note at Annex A contains preliminary suggestions on how data collection might be carried out. Concern about the possible implications of this for other public service groups could point to linking the data to certain specific Civil Service grades. It could, however, be difficult to agree in time with the unions the job evaluation methods to be used for this. It would also make it more difficult to resist pressure for ancillary information on pay levels even though the data relevant to the negotiations would be about pay movements. A more generalised approach to data on pay movements would avoid these difficulties but would carry a greater risk of being claimed as relevant by other groups. It would also be necessary to decide on the precise role of the OME and the use of consultants and whether it might be helpful to have an individual appointed to oversee the data collection work on an independent basis. If Ministers wish to pursue the option of data collection for 1984, a further paper will be prepared by officials setting out the detailed issues involved in its handling.

Options

12. The unions have asked for an indication of the Government's present position on the issues outlined above in time for a meeting they are holding on 6 October. In tactical terms the main options appear to be:

- (a) To put forward a definitive statement of the Government's position on issues (a)-(c); with no offer of anything special for 1984;
- (b) To continue discussions on (a)-(c) but to make these less pressing by putting forward ad hoc proposals, including the possibility of data collection, for the handling of the 1984 pay negotiations which would constitute a step in the direction charted by Megaw; these proposals could be taken forward at the same time as progress in discussions on the longer term;
- (c) To refuse to take up a substantive position on issues (a)-(c), or to contemplate ad hoc data collection arrangements for 1984.

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13. In negotiating terms (c) is not a tenable approach. The Megaw Report was published over a year ago. "Exploratory" discussions without sign of progress cannot continue indefinitely and the issue of the handling of the 1984 negotiations is now on the table. The choices are effectively between (a) and (b).

14. (a) would be likely to precipitate an early breakdown in the discussions on a long term agreement. The unions would presumably press for an early meeting with Ministers to discuss the Government's position and failure to reach agreement (if coupled with continued refusal on data collection for 1984) would lead to the collapse of the process started by the setting up of the Megaw Inquiry. There would then be no framework for either the 1984 negotiations or for the longer term.

15. (b) has its drawbacks. But it looks attainable and to the Government it gives more room for manoeuvre for the present than if it was moving at once straight into a full scale Megaw system (which would formally constrain its bargaining position) while at the same time keeping the discussions with the unions alive.

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DATA COLLECTION FOR 1984 PAY NEGOTIATIONS

1. It would not be necessary to establish a Pay Information Board to undertake data collection for the 1984 negotiations. The Office of Manpower Economics, probably with help from consultants, could be asked to take on this work. The way in which they would set about collecting data on pay movements (but not levels) to inform (but not constrain) the 1984 pay negotiations would need to be agreed beforehand with the unions. If no agreement could be reached, there would be no data collection.
2. Information would be gathered from private sector firms on changes in non-manual basic pay rates only. On past form, changes in bonuses, overtime etc are a relatively small and stable element of earnings: they could therefore be ignored for the purposes of this exercise. Improvements in outside hours and leave would also be left out of account.
3. It would be necessary to decide on the appropriate balance between the different sectors of the economy: manufacturing, service industries, financial sector etc; the geographical spread; and the spread in terms of size of firms to be contacted.
4. Agreement would be needed on the extent to which the data collected would be made public. The views of the firms involved would clearly need to be respected. But the fact that data was being collected for use in the 1984 Civil Service pay negotiations would not be secret and it is therefore probable that the overall ranges would become known.
5. Two broad approaches to the collection of data would be possible:-
 - (a) one approach would be to establish the job weights at certain key levels in the Civil Service and then collect data on changes in pay rates for jobs of comparable weight in the private sector. Since the data to be collected would be concerned with pay movements, and not with pay levels, it might be sufficient to choose jobs in 3 of the main Administration grades - for example, Clerical Officer, Higher Executive Officer and Principal. The result of the exercise would be 3 separate ranges of pay increases in the private sector for jobs whose weight was comparable to the selected Civil Service grades. This would make it more difficult

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for other groups to argue in the run-up to their pay negotiations in 1984 that the data collected by the OME for the Civil Service negotiations was relevant to them, although they might still do so particularly if the ranges were much the same and could be taken as a reflection of non-manual pay increases in general;

- (b) An alternative approach would be to collect generalised data about pay movements among non-manuals in the private sector. This could more readily be agreed with the unions since it would not involve any need for job evaluation. It would also not leave the way open to pressure for information to be provided on outside pay levels since no basis for this comparison would exist. Arguably, however, this approach carries a greater risk that the data collected will be claimed as relevant by other public service groups, although this could be reduced by ensuring that the Civil Service pay settlement came late in the pay round.

6. Megaw proposed that the period to be covered by data collection on pay movements should run from August to February. But it would be possible to extend this to, say, April 1984, so as to ensure that the bulk of other public service settlements were out of the way before the results of data collection for the Civil Service were known. This would involve a degree of retrospection for the Civil Service settlement. It is possible that such a timetable would in any case prove necessary for 1984 because of the time needed to launch the data-collecting exercise.

7. The costs of such data-gathering in 1984 would be minimal.

Civil Service Pay
with W.R.

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10 DOWNING STREET

Prime Minister

We have fixed a meeting on 5 September to discuss both the approach to the 1984 pay negotiations with the Civil Service and the longer term issues arising out of Megaw.

At present just the Chancellor, Mr Tebbit, Lord Gornie and Robert Armstrong / Peter Grayson have been invited.

Do you want Mr Heseltine and Mr Fowler to attend? They are the other members of MISC 83, the ministerial group studying these matters.

Yes please
RF

WR 23/8