



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

PRIME MINISTER

THE MEGAW REPORT

The Ministerial Group on the Megaw Report (MISC 83) met on 2 November to consider whether the Megaw recommendations provided an acceptable basis for seeking to negotiate a new pay agreement with the Civil Service trades unions; and what, if anything, the Government should say publicly at this stage about its attitude to the recommendations. This minute reports the Group's conclusions.

2. MISC 83 recognised that a system based on the Megaw recommendations would entail limitations on the freedom of manoeuvre of the Government:

(a) The Government would be committed to offering a pay increase of at least the same amount as the lower quartile of settlements in the private sector for broadly comparable occupations. The level of the lower quartile would be estimated by an independent body. Other factors, such as job security and our ability to pay, would be brought to bear on negotiations as part of the process of placing the Civil Service pay settlement within the inter-quartile range of current private sector pay settlements. (It is worth noting, however, that unlike the negotiations which took place under the old PRU system, these new-style negotiations would be informed by a stream of information from the proposed Information Board on such matters as the recruitment and retention experience of the Civil Service as compared with the private sector, and so on.)

(b) The Government would be committed to financing pay settlements reached on this basis. But there would be no presumption





that this would involve new money: on the contrary, part of the cost might well be found by improved efficiency or more rapid manpower reductions, as with the last two Civil Service pay settlements.

(c) If the proposed 4-yearly total remuneration surveys showed that the remuneration of any group of civil servants was below the lower quartile of pay levels for comparable staff in the private sector, the Government would be committed to bringing them back within the inter-quartile range as quickly as the upper limit on pay increases within the Megaw system (that is, the upper quartile of comparable private sector pay settlements) would allow.

3. On the other hand, a system based on the Megaw recommendations offers us significant advantages and requires the unions to accept important restrictions on their own freedom. Megaw explicitly recognises the crucial importance of recruitment, retention and motivation, and the need to take full account of the financial consequences of pay settlements. The trade unions would be committed to negotiating within the inter-quartile range of private sector pay settlements, so that there would be a clear upper limit on the amount that they could claim. Civil Service pay settlements would keep closer to movements in the market; this would avoid the need for the disruptive 'catching up' increases which were a factor of the previous pay system. Finally, there is a good chance that a system on the lines recommended by Megaw, by limiting the room for argument, would significantly reduce the risk of industrial action.

4. We shall not get these advantages unless we are willing in return to accept the commitments described in paragraph 2 above. There is obviously no prospect of an agreement which places restrictions on the unions but leaves us totally free.





5. A further point to which MISC 83 attached importance is the way which, over so much of the field, Megaw's recommendations reflect the evidence we gave to his Committee. This extends beyond the central pay determination system itself (a clear break with the concept of a single "right" level of pay, use of private rather than public sector comparators, adequate weight to the experience of small firms, a truly independent data source, etc) into areas of management policy (merit pay, internal relativities, pensions, etc) where the Megaw recommendations are helpful to the policies we wish to pursue. In short, the totality of Megaw is overwhelmingly favourable to our views and, if implemented, would give us an approach to Civil Service pay and related matters altogether more realistic and relevant to the market and private sector practice than the discredited PRU system which we abandoned. Given this, the Group saw considerable difficulty in defending rejection of the recommendations of the Committee we had ourselves set up and which has extensively endorsed our views. Moreover, there is no possibility of an alternative system to that recommended by Megaw which would be acceptable to us and negotiable with the unions. The only alternative would be free collective bargaining. It is far from certain that this would be cheaper in the long run; it would be likely to involve considerably greater risk of industrial strife.

6. The Group was therefore firmly of the view that the Government should accept the Megaw recommendations as a basis for seeking to negotiate a new pay system. This does not, of course, commit us to seeking an agreement at any price. Nor are we bound to accept every detail of the Megaw recommendations. If, as the negotiations develop, it becomes clear that the detailed arrangements which are acceptable to the unions are not acceptable to us it will be perfectly possible to say that, having tried and failed to build a system on Megaw, the Government has no alternative but to seek a conceptually different solution.





7. Moreover, the Group thought it essential that any new pay agreement should contain certain safeguards. It must contain provisions for its own termination. There will also need to be some form of Parliamentary override on settlements, arbitration awards, or both, when economic circumstances require this. The Group was also concerned that a system based on the Megaw recommendations should not reinforce the concept of an automatic annual pay increase: it would, for example, be foolish to be committed to a general Civil Service pay increase of  $\frac{1}{2}$  per cent simply because that was the lower quartile of national pay settlements. Officials have been instructed to consider whether there are ways of surmounting this difficulty.

8. Finally, the Group considered the question of a public statement of the Government's attitude to the Megaw recommendations. It is becoming increasingly desirable for us to declare our views, and it is important that we should declare them before the Civil Service union special conferences which are due to take place in early December. However, both the form and the timing of any statement will need careful consideration. It is not necessarily right to suppose that any statement should be made primarily to Parliament or the media: it is at least as important for us to communicate our views to our own employees. Officials have been instructed to prepare the draft of a statement and to advise on its form and timing.

9. I am sending copies of this minute to other members of the Cabinet, to the Attorney General and the Lord Advocate, and to Mr Sparrow and Sir Robert Armstrong.

[GH]

4 November 1982

Civil Service, Pay, Pt 12

1772



COMMISSIONER

1772