

PREM 19/403



Pay and Pensions

CIVIL SERVICE

Civil Service pay dispute /  
strike PART 6

PE 1 : May 1979  
PE 6 June 1981

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
<del>12-6-81</del>							
<del>15-6-81</del>							
<del>16-6-81</del>							
<del>19-6-81</del>							
<del>22-6-81</del>							
<del>24-6-81</del>							
<del>26-6-81</del>							
<del>27-7-81</del>							
<del>9-7-81</del>							
<del>13-7-81</del>							
9.7.81							
- ends -							

PREM 19/403

Material used by  
official Historian  
DO NOT DESTROY



PART

6

ends:-

9.7.81

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PART

7

begins:-

10.7.81

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## Published Papers

The following published paper(s) enclosed on this file have been removed and destroyed. Copies may be found elsewhere in The National Archives.

House of Commons Hansard  
Civil Service (Pay Inquiry)

29/06/81  
Columns 577-582

House of Lords Hansard  
Civil Service (Pay Inquiry)

29/06/81  
Columns 8-12

Signed *AWayland* Date *15 February 2011*

**PREM Records Team**



9 July 1981

MR LANKESTER

cc Mr Vereker

*Time, this note crosses yours.  
Foster has discussed 3 with  
Ian Bancroft & Peter Baldwin.*

*His was going to talk 1 & 2 with  
Megans.*

*Should have the answer  
in 24 hrs  
(close of play Friday)*

CIVIL SERVICE PAY INQUIRY: CHRISTOPHER FOSTER

Christopher Foster is keen to sit on the Inquiry. Cooper's and Lybrand are of course in principle very anxious to help if they can. However, like Alan Lord, and unlike some of the other members, Foster is a busy full-time executive. He would like some reassurance on the following three points:

1. Over what elapsed time will the Inquiry sit?
2. Can he do slightly less than his share of listening to witnesses and travelling; and more than his share of reading and thinking?
3. Is there any danger that his membership of the Inquiry could prejudice Cooper's chances of getting other consulting assignments for Central Government (eg the recent work he did with CPRS and Alan Walters on the rail electrification proposal)?

*Answer - no problem.*

I doubt if Megaw can give can give him much more guidance than we can on question 1. I would guess that we can give him reasonable assurance on question 2. He will himself talk to Sir Ian Bancroft about question 3. But I am assuming that there would be no problems there, otherwise Sir Ian would have pointed out the problems of putting a consultant/accountant onto the panel in the first place.

I have told Foster that I think that his contribution should be front-end loaded. In other words, assuming that we can satisfy him on question 2 above, he should still be prepared to make his main contribution in the early weeks. Like any R&D project, everything depends on high quality thinking from a handful of people at the outset. That will determine whether what follows is a shambles or value for money. So I hope that he will be able to help them orientate themselves, translate their terms of reference into clear objectives and a structured programme, since this is the area where some of the talented and worthy members may be complete amateurs. I would guess that this is the same sort of contribution that Alan Lord could make - provided he has the time to sit at all.



I would welcome any comments, as I want to get back to Foster as quickly as possible.



Am already in touch with Foster  
but of course any thoughts welcome.

JOHN HOSKYNS



Civil Service Department,  
Whitehall,  
London, SW1A 2AZ

Tim Hankester  
No 10

*With the Compliments*

*of the*

*Private Secretary*

*to the*

*Lord President of the Council*

*Jim Suckley.*





*Civil Service*

Civil Service Department  
Whitehall London SW1A 2AZ  
01-273 4400

The Rt Hon Sir Geoffrey Howe, QC, MP  
Chancellor of the Exchequer  
HM Treasury  
Parliament Street  
LONDON SW1P 3AG

*cc Veneber  
DVS*

9 July 1981

*Dear Geoffrey,*

CIVIL SERVICE REDUNDANCY STATISTICS

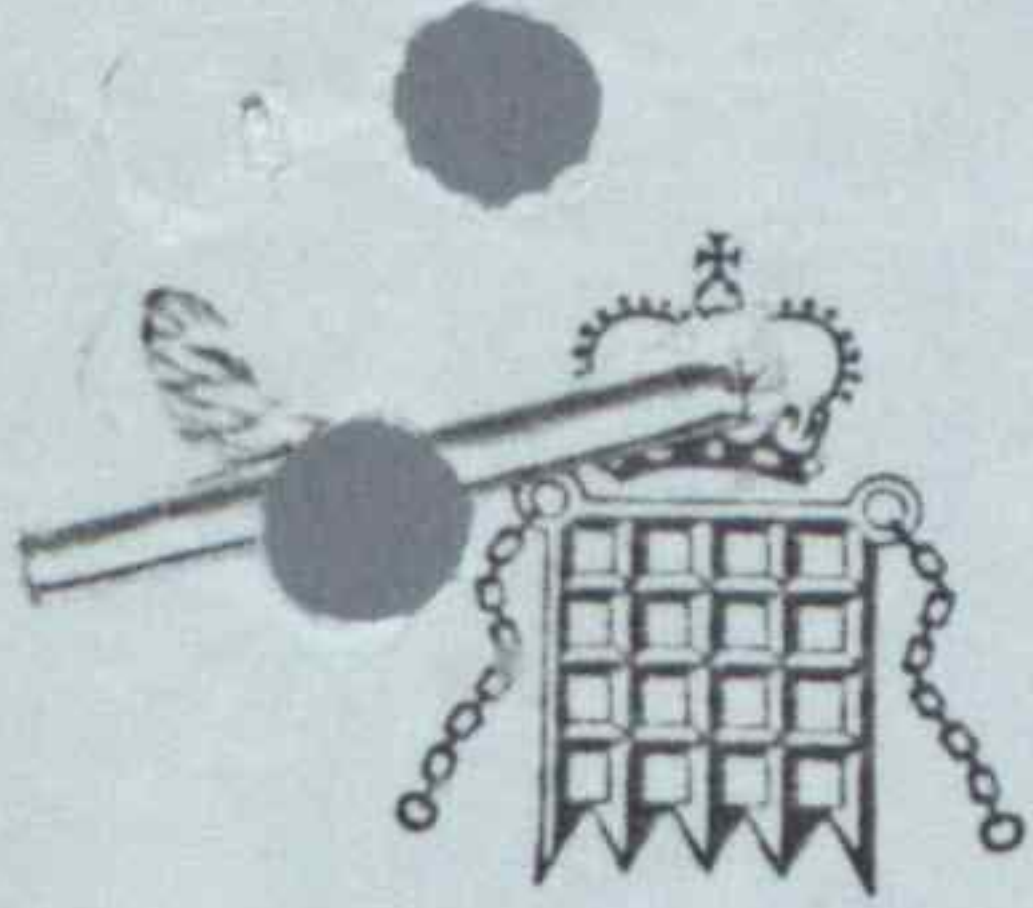
I have seen your Private Secretary's letter of 26 June on this subject. If you see no value in the sort of working group which I suggested, so be it. I am glad you think it would make sense if the inquiry into Civil Service pay looks closely at the question of relative job security. That it will surely do (not least because we shall ask it to) and I am content to wait for that. Because officials have found a scarcity of information on this subject I thought it sensible to make whatever new arrangements we needed so that we did have the facts available to us but if you do not wish your Department to be associated with the work I will not press you.

I am anxious that we should not lay ourselves open to the charge from the Civil Service that we are using figures in such a way as to put them unfairly in a yet more unfavourable light. After all, it is of great importance that we should husband a good employer/employee relationship.

*Yours ever*

*Christoph*





*Prime Minister*

*The Chancellor asked me to show you his note from Sir Douglas Lovelock.*

Board Room  
H M Customs and Excise  
King's Beam House  
Mark Lane London EC3R 7HE

8 July 1981

CHANCELLOR OF THE EXCHEQUER

cc Sir Lawrence Airey  
Mr Downey

*TL  
97*

CIVIL SERVICE DISPUTE

May I comment briefly on Mr Vereker's draft paper for Cabinet (I am assuming that the final version will not be round in time for comment - indeed will probably be handed round at Cabinet).

1. I think that it is very important to settle the issue before the main holiday season, and the Parliamentary recess. As an official I obviously have most in mind the problems of revenue collection, and recovery, but I can also envisage the Government coming under heavy political pressure if there has not by then been action to settle the matter. This could result in some drastic move (by either side) which could make post-strike attitudes even more sullen.

2. So it has to be brought to a head and I favour, as part of this, the 1/2% and the 1982 arbitration formula. The latter is more important than the former but both are necessary. All reasonable staff will understand that there must be an "over-riding national interest" clause. The problem will be to convince a distrustful Service that it will not be lightly exercised. Ministerial statements on this will need most careful and sympathetic phraseology.

3. On the "sticks" side I am glad to see that the divisive notion of selective imposition of 7% no longer features, but I still do not understand why there is no proper analysis of withdrawal of the "check-off" facility. The key to this dispute is union funds, and it is the unions, not the staff, most of whom are working loyally, who should be pressurised. Maybe there is an agreement with the unions to provide the facility but should it continue to operate to finance the disruption of the provider?



4. Financing the  $\frac{1}{2}\%$  cut. I see that "Revenue" are cited as a Department which could not make an additional  $\frac{1}{2}\%$  cut in manpower. I am sure that you will interpret this as including both your Revenue Departments. The problem of recovery from industrial action imperils our existing targets let alone CSD's more ambitious plans or another  $\frac{1}{2}\%$ .

5. I am also glad to see that the possibility of restoring leave and pension rights to strikers has been dropped. I still do not understand the reference to lost seniority. CSD have assured me that it is not lost anyway. It is not the most vital of points but it is worrying that the facts seem so elusive.

6. Finally, the proposed announcement of withdrawal of the operative date will come as a fearful shock to staff working normally. To minimise the effect on their goodwill the fact that urgent meetings with the unions are to take place to find a settlement needs to emerge at once, even if not officially.

*DL*

DOUGLAS LOVELOCK



SECRET

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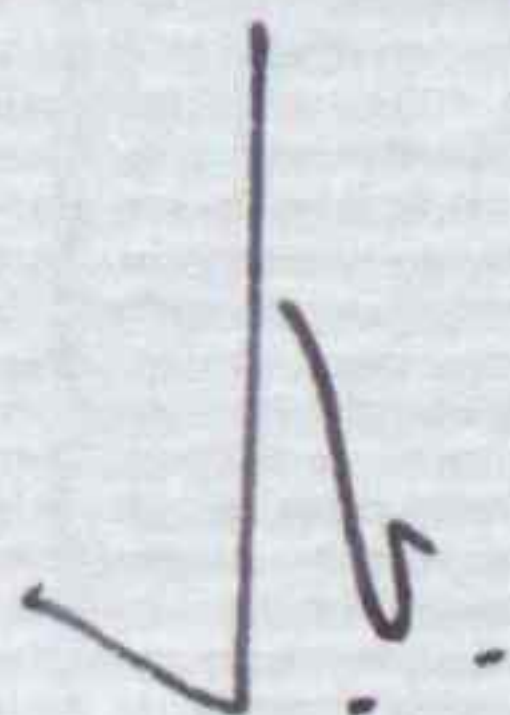
PRIME MINISTER

Civil Service Dispute

I have had ~~the~~ draft paper for Cabinet, and draft letter for the Lord President to send to his colleagues, typed up to include the Lord President's comments last night, in preparation for your discussion with the Chancellor this afternoon.

The Lord President's suggestion that we include the phrase "to be ready" (to make further cuts accordingly) seemed to me unwelcome, since it significantly weakens the intended sense, which is that in general the presumption must be that further manpower cuts will be required as a result of the extra half per cent. I discussed it with Sir John Herbecq, who, after consulting the Lord President's Private Office, has agreed to take it out; and he has also agreed to make it clear that we are talking about financing the increase within existing departmental cash limits.

If the Lord President's letter were to issue, therefore, there may be some Ministers whose present plans will already accommodate the extra half per cent and ~~no~~ will have to take no action, but most will have to make further adjustments in their staff costs in order to stay within their cash limits, and the CSD accepts that they would be expected to lean hard upon even the large employers (Employment, DHSS and Revenue) whose manpower figures are under greatest pressure.



8 July 1981

SECRET





10 DOWNING STREET

From Amintor

This is the  
note which you agreed  
should be handed  
round at Cabinet. (1  
with hand copies round  
when we reach this  
item).

R

977



POSSIBLE SOLUTION TO THE CIVIL SERVICE DISPUTE

1. The Lord President writes to the Unions this afternoon (Thursday) telling them that the Government has decided that unless the unions call off their campaign of industrial disruption by 16 July, the operative date will be withdrawn and decided later.

*Chief negotiator*  
2. CSD officials approach the Unions privately on Friday, to enquire whether, if Ministers were to agree to the following package, this would end the dispute:-

- ✓
- i. Restoration of the operative date to 1 April.
  - ii. Consideration by the Government of one Union nominee for the inquiry.

*"well-judged fashion"*

Plus either or both of the following:

*Handwritten mark*  
iii. Offer for 1981 to be increased to 7½%, the extra ½% to be financed as set out in the attached draft letter to Ministers.

iv. An improvement on the present arbitration formula for 1982 (that the Government is not committed to arbitration for 1982 but does not rule it out) on one of the following lines:

a. The Government will if necessary refer the dispute to arbitration in 1982, but will ask the House of Commons to override the award if it is too high; or

b. The Government will if necessary refer the dispute to arbitration in 1982, but will itself have power to set the award aside on grounds of overriding national policy.

↗



SECRET

13

DRAFT LETTER TO THE HOME SECRETARY

CIVIL SERVICE PAY

I wrote to you and other colleagues on 13 February about the decision to offer a 7% pay increase to the Civil Service Unions. I recorded that this was on the understanding that the additional costs would have to be found within the existing cash limit factors of 6% and 11% and warned colleagues that they would therefore need to contain expenditure on staff and staff-related matters within the cash limits now set.

We have now agreed to see whether a further increase of  $\frac{1}{2}$ % in pay will serve to bring the dispute to an end. We shall tell the Unions that the Government intends to finance this within the existing departmental cash limits by making a further reduction in Civil Service staff costs. The purpose of this letter is to warn colleagues that they will need to make further cuts accordingly.

Copies of this letter go to the Prime Minister, all Ministers in charge of Departments and Sir Robert Armstrong.

SECRET



SECRET

1.

12

PRIME MINISTER

Copy No: /  
of 5 copies

CIVIL SERVICE DISPUTE

? As agreed at the end of your meeting this morning, I discussed the draft paper for Cabinet this afternoon with Sir John Herbecq, Gordon Burrett and CSD officials concerned with manpower.

We agreed the attached draft paper, designed to be handed round at Thursday's Cabinet, (and withdrawn afterwards). It is anonymous, and it is open to question whether you would introduce it, as the Lord President prefers, or whether the Lord President should do so himself. CSD officials are submitting it tonight to the Lord President; and I am sending a copy to the Chancellor under cover of this minute.

You will see that the way we have dealt with the ½% manpower trade off is by reference to an attached draft letter from the Lord President to his colleagues warning them that they will need "to make further cuts accordingly". I went into some detail with CSD this afternoon on the possibility of making the trade off more explicitly additional to cuts already planned. I am satisfied that we cannot go further than in the draft letter, without making a commitment which it would be impossible to demonstrate we had fulfilled. This is because -

- (i) Neither CSD nor Departments know exactly at present what their expected manpower figures at the end of the year will be;
- (ii) Additional manpower cuts announced now and taking effect between now and the end of the financial year would have to be enormous to yield the extra ½%, because nowhere near a full year's savings would be achieved; and

/ (iii)

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**SECRET**

- 2 -

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of 5 copies

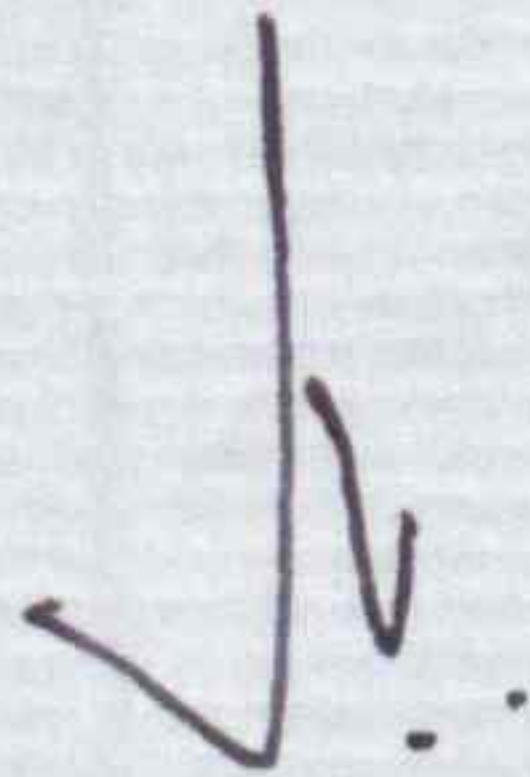
- (iii) Certain departments (Employment, DHSS and Revenue) could not do it anyway.

It is not practical to demand departments' current manpower plans, cut them, deduct  $\frac{1}{2}\%$ , translate that back into manpower savings and insist on the outcome. If the formula suggested in the draft letter does not go far enough for you, then I think the better course would be to forget the extra  $\frac{1}{2}\%$  altogether (though we should probably retain it as far as Cabinet). The effect of the formula would certainly be that you could defend the extra  $\frac{1}{2}\%$ , and that although not all Departments would make additional manpower cuts, some would have to, and by the end of the year, manpower would be lower than it would otherwise have been.

---

One other point: we have deleted the reference to the Lord President making an announcement about the enquiry team, because it is unlikely that this would have any effect, and not all the members may have been appointed by them. It would be more appropriate to convey the sense of the first step in a letter to the unions anyway.

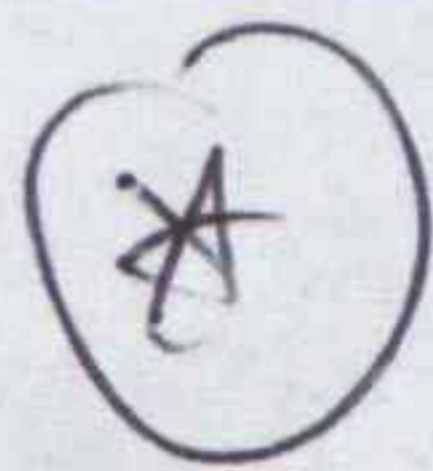
Are you content that, subject to the views of the Lord President and the Chancellor, the attached draft <sup>and</sup> letter be handed round at Cabinet on Thursday?



7 July 1981

**SECRET**





SECRET

POSSIBLE SOLUTION TO THE CIVIL SERVICE DISPUTE

1. The Lord President writes to the Unions this afternoon (Thursday) telling them that the Government has decided that unless ~~industrial action ceases~~ <sup>the unions call off their campaign of industrial disruption</sup> by 16 July, the operative date will be withdrawn ~~and that the operative date would then be subject to negotiation in the light of the progress of the dispute.~~ <sup>and decided later</sup> ~~to enquire whether it~~

Ld Soames  
has  
suggested  
a minor  
drafting  
change  
(see Page #)  
R

2. CSD officials approach <sup>the</sup> Unions privately on Friday, ~~to enquire~~  
i. ~~Not much to offer but face-saving formula possible~~  
ii. ~~Therefore prepared to negotiate, if no publicity.~~

3. ~~Negotiations take place with a view to a settlement on the following lines:~~ <sup>whether if Ministers were to agree to the following package, this would end the dispute:</sup>

- i. Restoration of the operative date to 1 April.
- ii. Consideration by the Government of one Union nominee for the inquiry.

Plus either or both of the following:

for 1981 ←

iii. Offer to be increased to 7½%, the extra ½% to be financed as set out in the attached draft letter to Ministers.

iv. An improvement on the present arbitration formula <sup>for 1982</sup> (that the Government is not committed to arbitration for 1982 but does not rule it out) on one of the following lines:

The Government will if necessary refer the dispute to arbitration in 1982, but ~~it~~

and  
next also  
before (b)

a. ↓ will ask the House of Commons to override the award if it is too high; or



A

SECRET

The Govt will ... , but

b. ~~The Government~~ will itself have power to set the award aside on grounds of overriding national policy.

SECRET





SECRET

DRAFT LETTER TO THE HOME SECRETARY

CIVIL SERVICE PAY

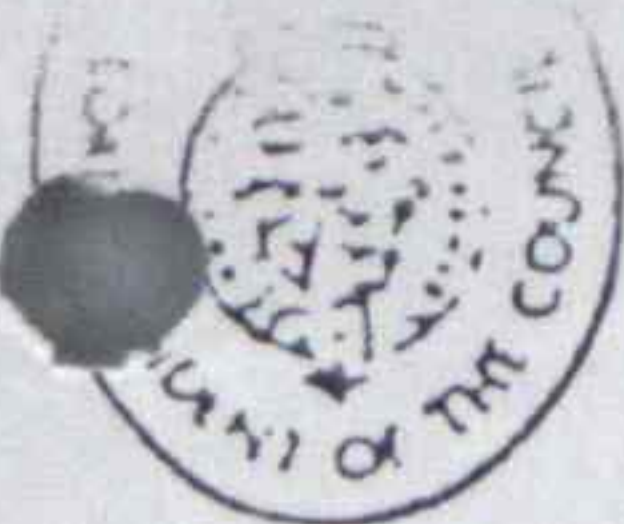
I wrote to you and other colleagues on 13 February about the decision to offer a 7% pay increase to the Civil Service Unions. I recorded that this was on the understanding that the additional costs would have to be found within the existing cash limit factors of 6% and 11%, and warned colleagues that they would therefore need to contain expenditure on staff and staff-related matters within the cash limits now set.

We have now agreed to see whether a further increase of  $\frac{1}{2}\%$  in pay will serve to bring the dispute to an end. We shall tell the Unions that the Government intends to finance this within the existing ~~the~~ <sup>departmental</sup> cash limits by making a further reduction in Civil Service staff costs. The purpose of this letter is to warn colleagues that they will need ~~to~~ <sup>to be ready</sup> to make further cuts accordingly.

Copies of this letter go to the Prime Minister, all Ministers in charge of Departments and Sir Robert Armstrong.

SECRET





Civil Service Department  
Whitehall London SW1A 2AZ  
01-273 4400

13 February 1981

The Rt Hon William Whitelaw, CH, MC, MP  
Secretary of State for the Home Department  
50 Queen Anne's Gate  
LONDON SW1H 9AT

a on last para  
+ Ps/mos  
Ps/Perm Sec  
Ps/2nd Perm Sec  
Mr Burrett  
Mr Fraser  
Mr Widding  
Mr Perrett  
Mr Woller  
Mr Turner

Dear Willie,

CIVIL SERVICE PAY

I explained to colleagues in E Committee why I thought it necessary to offer 7% to the Civil Service unions and I was authorised so to do. I intend to put this to them next week.

The authorisation was on the understanding that the additional costs would have to be found within the existing cash limit factors of 6% and 11% and this is to warn colleagues that they will therefore need to contain expenditure on staff and staff-related matters within the cash limits now set.

Copies of this letter go to the Prime Minister, all Ministers in charge of Departments and Sir Robert Armstrong.

Yours ever

Christopher

SOAMES

CONFIDENTIAL



A.R. A

Delete lines 3-11 and replace by:

"Unless the unions call off their campaign of industrial disruption by 16 July, the operative date will be withdrawn and decided later.

CSD officials approach unions privately on Friday to enquire whether if Ministers were to agree to the following package this would solve the dispute:

(i) Restoration ... "

[ In the draft letter, last line of paragraph 2, after "need", insert "to be ready". ]



010  
C  
CF



R917

**DEPARTMENT OF HEALTH & SOCIAL SECURITY**

Alexander Fleming House, Elephant & Castle, London SE1 6BY

Telephone 01-407 5522

*From the Secretary of State for Social Services*

M.

Note issued by the Rt Hon Patrick Jenkin MP on 7 July 1981

**THE EFFECT OF INDUSTRIAL ACTION ON SOCIAL SECURITY  
BENEFICIARIES**

DHSS Ministers hope that the attached notes on the current effect of the Civil Service strike on social security beneficiaries will be helpful.



## THE EFFECT OF INDUSTRIAL ACTION ON SOCIAL SECURITY BENEFICIARIES

The Civil Service Unions' selective strike action has hit the social security operation in some respects. As the Unions have recently decided to continue this action, we thought you should know just how your constituents who are beneficiaries might be affected. We can only give you a situation report, since almost daily changes in the Unions' activities alter the picture quite a lot.

The great majority of beneficiaries are continuing to receive their full benefit in the normal way. It is only right to add that the Unions have said themselves that they do not wish to prevent people getting the money that is due to them. Nevertheless their action has made it necessary to make special arrangements in respect of certain groups of beneficiaries.

### A. RETIREMENT PENSIONS

Because the contributions computer is out of action at Newcastle, it has not been possible to work out the precise entitlement of people who retire after 6 July. Under regulations passed last month, we have taken power to pay these people an interim rate of pension which will be the standard basic rate for a single person or a married couple. The awards will have to be reviewed when the industrial action ends. Many people will be entitled to bigger pensions than the basic rate, but of course there could be some, with deficient contributions records, whose pension entitlement turns out to be less than we have been paying from local offices, under the special arrangements.

### B. CHILD BENEFIT - Existing payments

No new Child Benefit order books are being issued from the Child Benefit Centre. We have arranged that from 29 June recipients of child benefit whose order books expire should be paid at the post office on their old book. The post office will date stamp the old book each week and then issue payment at the rate shown on the book. Only one week's benefit will be payable in each week.

### - Claims for new children

No provision can be made for a new child, as all the post office can do is continue to pay on the basis of the sum of one week's money shown in the



existing order book. Nor, of course, is it possible to issue new books for the first child of a family. All arrears due will be paid when we get back to normal, and meantime the "stub payment" system ensures that those who have been receiving child benefit continue to do so.

#### C. UNEMPLOYMENT BENEFIT

This is normally paid by giro issued fortnightly from the two computer centres at Reading and Livingston in Scotland. Both are now affected by the strike action. The Department of Employment's Unemployment Benefit Offices are paying all those who would normally receive benefit from the computer centres, by giro issued locally. The claims for unemployment or supplementary benefit from those who become unemployed are being dealt with in the same way.

#### D. WAR PENSIONS

The computer making payments at the Paymaster General's Office is also now out of action. This pays 30,000 war pensioners in addition to public service pensioners. Instructions have been issued to our local offices so that they can make payments to war pensioners who would find it difficult to wait until the dispute is ended. (Many war pensions are, of course, of small amount and paid to people who have other resources.)

With these arrangements we have made every effort to protect the position of our beneficiaries. It is very much our concern to ensure that this remains the case whatever developments there may be in the industrial dispute.

I am afraid there will inevitably be individual cases where difficulty arises. Do please let your local DHSS manager know of any problems. He will do all he can to solve them. Looking forward, it is clear that when the industrial dispute comes to an end there will be quite a long period of recovery involved. Certainly in some areas it will not be possible to resume normal service until some time after the end of industrial action.

We plan to write to you again at that stage to let you know how the recovery plan will take place and when we may reasonably expect to be back to normal.



DRAFT LETTER TO THE PRIME MINISTER FOR SIGNATURE BY  
THE LORD PRESIDENT

Your Private Secretary's letter of 2 July suggested an early meeting to consider the handling of Government evidence to the Civil Service Pay Inquiry under Sir John Megaw. This would be helpful.

2. The inquiry will require a good deal of factual background material; the preparation of this is in hand. But we shall also be asked to set out our views on the present pay system and on the considerations which we want the inquiry to have in mind in their work.

3. The Committee will have to work quickly to produce a worthwhile and thorough report by next summer. So it must concentrate on the pay issues although it has sufficiently wide terms of reference to examine any relevant aspect of Civil Service management and practice.

4. We could set about framing a set of detailed proposals for a new system under the Committee. I think that would be <sup>the</sup> wrong approach for us to take. We do not want the inquiry in effect to be sitting in judgment on a Government scheme. That would reduce our room for manoeuvre after we have their report. There will be important points we want to get across to the Committee. But we must not give the impression (either to it or to the unions) that we have made up our minds before we have heard



what the inquiry has to say. We have set it up precisely because there are genuinely difficult issues here which we want to have thoroughly examined and on which it will be helpful to have its recommendations before we ourselves come to conclusions on the pay arrangements we want for the longer term.

5. I enclose a note setting out the framework which I suggest that the Government's initial evidence to the Committee should follow. If this can be agreed at our meeting we can then ask officials to proceed quickly to detailed drafting. As its work proceeds the Committee will want more detailed evidence on particular issues. We can also expect to be asked to comment on the evidence submitted by others including the unions (who will no doubt be asked to comment on ours).

6. I am copying this letter to the Home Secretary, Chancellor of the Exchequer, the Secretaries of State for Employment, Defence and Social Services, the Chancellor of the Duchy of Lancaster, the Attorney-General and Sir Robert Armstrong.



## SYNOPSIS OF GOVERNMENT EVIDENCE TO THE INQUIRY ON CIVIL SERVICE PAY

INTRODUCTORY

1. Present arrangements no longer command confidence. Priestley Commission reported 25 years ago at a time of full employment and low inflation. Very different position now. Need for system capable of responding to changes in economic circumstances. Also, need to take account of recent problems in operating pay research.

APPROACH TO A NEW PAY SYSTEM

2. Government's aim is "ordered and agreed system" [to which both sides can be committed.] Desirable as basis for avoiding industrial disputes involving central Government directly. Scope for "no strikes" agreement?

3. Advantage if Committee can recommend procedures to keep increases in Civil Service pay more in line with those in pay generally. Present system leads to "out of phase" settlements causing presentational problems.

4. Full range of "market factors" important in fixing pay. Comparison with outside rates on its own inadequate. "Market factors" of recruitment and retention position (assessed against forward manpower requirements) should play more direct part than under Priestley approach. Also relative job security. Committee invited to make recommendations on practical methods of assessing these factors for pay purposes.



5. Cost and economic circumstances also need to be taken into account. Future arrangements must enable Government to meet its general economic responsibilities in controlling public expenditure. Government will occasionally need to curtail Civil Service pay increases in national interest even if justified on management grounds. Possible options include "override" for use in exceptional circumstances or more direct application year-by-year of cost and economic factors. But Government ready to examine alternatives for reconciling wider economic requirements with a stable system of pay determination.

6. Government committed to finding means of reconciling procedures for fixing cash limits and negotiating Civil Service pay. Various options including possible change in operative date of Civil Service pay settlements.

7. Future arbitration arrangements best considered in light of decisions on pay system following Committee's report.

#### PAY COMPARISONS

8. Comparisons have<sup>a</sup>/~~continuing~~ part to play. Apart from questions of "fairness" Civil Service pay levels cannot be held below outside rates for any lengthy period of time without serious management problems. Comparisons need to be based primarily on outside rates for similar work. These reflect actual pay market affecting ability to recruit and retain.

9. Functional comparisons can readily be made where outside jobs have close similarity to Civil Service work, eg clerical jobs. More difficult at senior management levels. Committee asked to



examine reliability of comparisons at different grading levels; and to consider relationship of new system to TSRB's work on pay of senior grades.

9A. Institutional arrangements required for fact-finding to be considered in light of PRUB's observations on scope for wider role for any successor body.

10. Specific points:-

a. Comparisons to be based on fully representative sample of outside employers. Committee to examine Scott Report suggestion of excluding public sector; and ways to extend comparisons with private sector including wider spread of smaller firms.

b. Outside pay rates need adjusting for differences in other benefits and conditions. Stringent assessment required of value of "fringe benefits". Government to make known views on Scott Report on pensions.

c. Genuine problem in securing up-to-date pay comparisons. But present "uprating" procedures linked to price movements unsatisfactory.

#### OTHER ASPECTS OF NEW SYSTEM

11. Committee invited to consider:-

a. role for internal relativities;

b. scope for greater geographical differentiation as alternative to present system of national rates plus London Weighting;

c. case for merit pay (including review of automatic increments); and scope for productivity bargaining at more junior levels.

#### CONCLUSION

12. Committee asked to advise on both principles to form basis of new pay system and practical arrangements for applying. Terms of reference leave it free to examine any aspect of Civil Service management practice relevant to this.





see the books  
by Douglas

Prime Minister  
We are fixing up  
a meeting to consider  
what evidence should  
be put to the Inquiry.

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

We think it would be  
sensible to consider  
the issues raised in  
the MISC 54 report at  
that meeting as a  
necessary preliminary to  
deciding what  
evidence to put  
in.

PRIME MINISTER

MB

CIVIL SERVICE PAY INQUIRY: GOVERNMENT EVIDENCE

Your Private Secretary sent mine a copy of his letter of  
2 July on this subject.

Agree?

12  
977

2. I am sure that we must consider together the nature and  
general thrust of the evidence that we shall put to the Inquiry.  
But I think that we shall be able to do this much more effectively  
when we have considered the issues raised by the report of  
MISC 54. I recognise, of course, that that report was directed,  
to a considerable extent, to considering what type of pay  
determination system the Government should try to negotiate  
with the unions; and that is not the situation which faces us  
now. Nevertheless, the issues raised by the report - such as  
whether we want a "committed" type of system or not, and the  
part to be played by general economic and financial considerations -  
are fundamental. Until we are clear on them, we shall find it  
difficult or impossible to decide how to formulate our evidence  
most effectively.

3. I would therefore suggest that we should first discuss,  
on the basis of the MISC 54 report, what our general aims should  
be, that is, what sort of system for pay determination we should  
like to see recommended by the Inquiry. We can then consider  
how our evidence can best fulfil those aims. We have postponed  
this discussion because of the strike, but I think there would  
now be advantage in holding it before the recess, whatever  
happens about the strike.

/I am sending copies



CONFIDENTIAL



4. I am sending copies of this minute to the Home Secretary, the Lord President, the Secretary of State for Employment, the Secretary of State for Defence, Secretary of State for Social Services, Chancellor of the Duchy of Lancaster, the Attorney General and the Secretary of the Cabinet.

R. T. Tothier,

for,

(G.H.)

7 July 1981

( Approved by the  
Chancellor and signed  
in his absence )



bc Mr Vercher  
Mr Hoshyn  
Mr Wolfson  
ck. Martin

~~SECRET~~

11  
Copy No. 8 of 8 copies



10 DOWNING STREET

From the Private Secretary

7 July 1981

Dear Jim,

As you know, the Prime Minister held a meeting this morning to discuss the Civil Service dispute. In addition to the Lord President, the Chancellor of the Exchequer, the Secretary of State for Employment, Gordon Burrett and Peter le Cheminant were present.

They had before them the Lord President's minute of 6 July and a note prepared here at No. 10 on possible steps towards a settlement of the dispute (numbered copies of which were handed round to those present).

Commenting on the latter note, Mr. Burrett said that, in his view, the Government would stand an indifferent chance of reaching an early settlement with the unions unless they offered something for 1982. From his informal contacts with the unions, it was clear that the union leaders were keen to find a solution to the dispute; but that they would insist on a further concession for 1982 - and in particular, the bringing in of a third party into the 1982 negotiations.

The Lord President said that although the union leaders were anxious for a settlement, there was increasing resentment amongst rank and file civil servants that the Government had not come forward with a solution. He believed it would be more difficult now than it was a month ago to reach a settlement. Like Mr. Burrett, he felt that no early settlement would be possible without a concession on 1982; and Ministers should once again seriously consider offering some form of arbitration. As regards the possibility of raising the offer to 7½ per cent, his minute indicated that this could be financed without breaching the 6 per cent cash limit because of likely underspending on pay and administrative services. But if the Government was to go down this route, it was important to avoid any impression that it was giving decisions on Civil Service manpower over to the unions. Ministers could say, after the event, that the unions had opted for lower employment and higher pay; but there should be no question of seeking the unions' agreement to the lower manpower figures.

In discussion, it was generally felt that the approach set out in the No. 10 note could provide a way to an early settlement, provided it were to include also the concession of arbitration in 1982. It was noted that arbitration could be offered in one of three forms. First, the Government could simply reaffirm that, although not committed to arbitration, it did not rule it out;

~~SECRET~~

(second)



- 2 -

second, arbitration could be offered subject to the Government reserving the right to turn the arbitration down; third, it could be offered subject to the House of Commons having the right to turn the arbitration down. It was argued that arbitration was the only realistic way of bringing a third party into the 1982 negotiations: the alternative of asking the Inquiry to help produce a settlement would divert it from its task of making recommendations for a new long-term pay system. As regards the 7½ per cent proposal, it was essential that there should be a clear link between the extra half per cent and reduced numbers. Precisely how this link should be established and presented would have to be considered further. It was for consideration whether further manpower savings should be insisted upon over and above the reductions which, in the light of the Lord President's minute, the CSD were already expecting. If further reductions were to take place, it had to be recognised that this would require hard policy decisions. It was also important to ensure that any extra money for pay was found from within the existing provision for pay, and not from within the provision for administrative expenditure.

In further discussion, it was suggested that it might not be necessary to offer both 7½ per cent and arbitration. It was possible that arbitration alone would produce a settlement. It should be possible to ascertain this by sounding the unions out privately after the announcement on Thursday, as was proposed, of the withdrawal of the original offer. It was generally agreed that it would be wrong to offer the restoration of leave and pension rights to those who had been on strike, but that the restoration of lost seniority could be offered. It was also agreed that it would be a useful douceur to offer the unions a nominee for the Inquiry membership, and that for the time-being therefore no further approach should be made to Mr. Gavin Laird (Mr Prior had explained that Mr. Laird was unlikely to be available).

Summing up, the Prime Minister said that a note should be prepared by No. 10 and the CSD for circulation at Cabinet on Thursday. This should be on the lines of the note which they had already considered, but it should be revised to take into account the points made in discussion. In particular, the three options for arbitration should be spelled out.

I am sending numbered copies of this letter to Richard Dykes (Department of Employment), John Wiggins (HM Treasury) and David Wright (Cabinet Office).

Jim Buckley, Esq.,  
Lord President's Office

SECRET





CONFIDENTIAL

T.L. Civil Service  
for your files  
(these were on my desk!)  
J.

P.0516

PRIME MINISTER

cc: Mr Wright

CIVIL SERVICE DISPUTE

You are meeting the Chancellor of the Exchequer, the Lord President and the Secretary of State for Employment this morning to discuss the next steps in resolving the Civil Service pay dispute. The only circulated piece of paper is Lord Soames' minute to you of 6 July about the financing of an increase in the pay offer this year from 7 to 7½ per cent. The ideas you have had from John Hoskyns/John Vereker have not been circulated. This is not the occasion for a formal brief but the following check-list may be useful.

2. The points to be covered are:-

Procedure

(a) When are colleagues collectively to be consulted?

Presumably at Cabinet on Thursday.

(b) Is there to be a paper/letter as the basis for discussion?

If so:

(i) Who is to circulate it? The Lord President? The Chancellor of the Exchequer? Both?

(ii) What should it contain? Which brings us to -

Content

(c) Extra half per cent for this year?

(d) Anything new for 1982? The possibilities are:

(i) Nothing.





CONFIDENTIAL

(ii) A commitment to arbitration.

(iii) Some form of index-link April 1981 to April 1982 (this is an idea floated in the Treasury. The Chancellor is not keen but it would limit the commitment to 1982 and would be likely to give a lower result than arbitration. It is not however consistent with the "genuine negotiations" which have already been promised).

Tactics and timing

(e) If an extra half per cent is to be offered, does it still make sense in the light of the Lord President's minute, to seek specific offsetting staff savings? Or is it enough to say that the cost will be held by whatever means within the 6 per cent cash limit?

(f) Is any carrot to be accompanied by a stick? The possibilities include:

(i) Deferring the settlement date for everyone despite the well-known objections that co-operating staff will be penalised and be less willing to continue to do so either now or in 1982 if trouble recurs then.

(ii) Selective deferment of the settlement date on the lines earlier proposed by the Attorney General. Again the objections are well known - they are largely technical - but an operation of this kind can more readily be defended on grounds of logic and justice.

(iii) Withdraw the present offer and hope this will encourage the unions back to the negotiating table (the Hoskyns/Vereker approach). It could work by heightening uncertainty, but might make a final settlement including 1 April and 7½% appear like a retreat.





CONFIDENTIAL

(iv) Action to prevent the unions collecting their dues (including contributions to strike funds) through the Government's pay machinery. If the Lord President is right that 12 months' notice needs to be given, early action would be represented as a further breach of agreements by the Government. Union leadership would obviously resent it bitterly. The attitude of the staff is less certain.

(g) Should the Government make a public statement of the concessions it is prepared to make on a "thus far and no further" basis? Or would it be better (ie more productive) to sound the unions first?

(h) How does a further statement on the membership of the Inquiry fit into this? A separate operation? Or linked with a more general statement as in (g) above?

(i) When is any statement(s) to be made? Thursday? Friday? Or next week?

P Le CHEMINANT

Cabinet Office

7 July 1981



**SECRET**

E.R. COPY NO. 1

(NOT TO BE COPIED)

c. Mr Wiggins - HMT 10  
Mr Downey - HMT  
Mr Le Cheminant - CO  
Mr Hoskyns

PRIME MINISTER

CIVIL SERVICE DISPUTE

We have arranged two meetings for tomorrow morning:

with the Chancellor at 0930, and

with the Chancellor, the Lord President and  
the Secretary of State for Employment at 1115.

Over the weekend you saw my note following up your meetings last Friday evening, and attaching a plan, prepared in consultation with John Hoskyns, for bringing the dispute to an end. You and the Chancellor may find it helpful to have, for the first of your meetings tomorrow morning, the attached summary of the proposals, now prepared in a form in which you could, if you wished, show them to the Lord President and Mr. Prior at your second meeting.

At the time of writing I have not seen the Lord President's proposals, but from discussions Clive has had with his Private Secretary and I have had with Mr. Hayhoe, it is clear that the CSD are thinking along rather different lines, giving greater emphasis to manpower savings already achieved, and to some commitment for 1982. If you and your colleagues do conclude that something has to be done for 1982, I think that the proposal being investigated in the Treasury for linking the 1982 pay award to the going rate in the private sector is well worth pursuing: it is difficult to imagine circumstances under which the Government would be able to get away with much less than that rate next year for the civil servants anyway.

6 July 1981

**SECRET**



**SECRET**STEPS TOWARDS A SETTLEMENT OF THE CIVIL SERVICE DISPUTE

1. The Lord President announces on Thursday afternoon:
  - (i) the full composition of the inquiry team, plus an indication that the inquiry will now proceed without delay;
  - (ii) <sup>that</sup> the Government has decided, in view of the COCSU decision to continue industrial action, "that unless industrial action ceases by 16 July, the operative date will be withdrawn". When questioned, he explains that this means the Government is no longer committed to an operative date of 1 April; the new operative date would be subject to negotiation in the light of the progress of the dispute.
  
2. CSD tells the unions privately on Friday that the Government is ready to see if it can let them off the hook; that there is not much to offer but a face-saving formula might be possible; and that the Government is prepared to re-open negotiations, provided these are kept informal and are not attended by publicity.
  
3. Authority is given to the Government negotiators to conclude a settlement containing the following elements:
  - (i) the restoration of the operative date to 1 April;
  - (ii) the restoration of lost seniority, leave and pension rights, but not of lost pay, to those who have been on strike;
  - (iii) the offer increased to 7½% in return for union agreement to an additional 3,000 fewer jobs by 1 April 1982, on the understanding that the Government will say publicly that the unions preferred the extra ½% rather than the jobs;
  - (iv) a re-affirmation by the Government that, although they are not committed to arbitration in 1982, they do not rule it out;
  - (v) an undertaking by the Government to consider one union nominee for the inquiry team.

16 July 1981**SECRET**





PRIME MINISTER

At our meeting on 2 July we reverted to the possibility of offering an extra  $\frac{1}{2}\%$  to the Civil Service. You suggested that we should say to the Unions that we would go to  $7\frac{1}{2}\%$  provided that they agree that the numbers are proportionately reduced.

2. The major problem here is that it would be giving the Unions a say in manpower numbers, something I have always refused to do in answer to their requests. Moreover, if the object of the operation is to get a quick settlement it is simply not possible to agree with departments all the necessary arithmetic for the adjustments at this stage in the year.

3. However, happily we can go ahead if we so wish without this in the sure knowledge that taking departments in aggregate we can advance to  $7\frac{1}{2}\%$  without increasing planned public expenditure. How come?

(a) Underspending in the last 4 years on pay and administrative expenditure has averaged about 3% and the lowest has been at least  $2\frac{1}{2}\%$ ;

(b) already <sup>at</sup> 1 April this year we were 5,300 below the published estimates for manpower and the indications are that the run-down in the size of the Service continues.

Therefore, even after allowing a margin for extra expenditure during the recovery period - and that gets progressively worse the longer the strike continues - I still conclude that taking the Service as a whole we will end up with an aggregate underspend this year more than sufficient to go to  $7\frac{1}{2}\%$ . A few individual cash limits may not hold - we recognised that when we went to 7%. But even at  $7\frac{1}{2}\%$  these would be more than covered by savings elsewhere.

4. Copies go to Geoffrey Howe, Jim Prior and Sir Robert Armstrong.

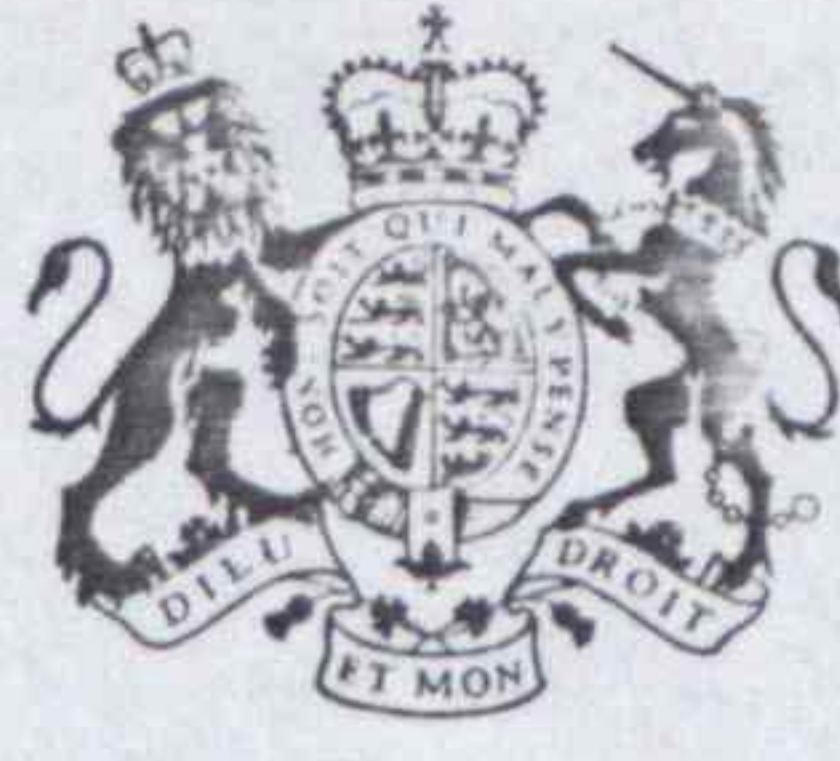
S.

Industrials.

SOAMES  
6 July 1981



FILE cc LPO JD



10 DOWNING STREET

THE PRIME MINISTER

6 July 1981

Dear Professor Crossley,

Thank you for your letter of 25 June tendering your resignation from the Civil Service Pay Research Unit Board. I quite understand that you feel this to be necessary, following the Government's decision to withdraw from the present Civil Service Pay Agreements and to run down the staff of the Pay Research Unit.

As you know, the Government has now announced its decision to set up an independent inquiry, chaired by the Rt. Hon. Sir John Megaw, to make recommendations on future arrangements for determining Civil Service pay. The present system has lost public confidence and we have come to the conclusion that a thorough-going review is now required.

You will know that Lord Shepherd also tendered his resignation as Chairman of the Board, and I have written thanking him and other members of the Board for all their work. May I take this opportunity to repeat those thanks directly to you.

Yours sincerely

Raymond Staites

Professor J.R. Crossley

HL





FILE

JD

cc LPO

## 10 DOWNING STREET

THE PRIME MINISTER

6 July 1981

Dear Mr. Holland,

Thank you for your letter of 25 June tendering your resignation from the Civil Service Pay Research Unit Board. I quite understand that you feel this to be necessary, following the Government's decision to withdraw from the present Civil Service Pay Agreements and to run down the staff of the Pay Research Unit.

As you know, the Government has now announced its decision to set up an independent inquiry, chaired by the Rt. Hon. Sir John Megaw, to make recommendations on future arrangements for determining Civil Service Pay. The present system has lost public confidence and we have come to the conclusion that a thorough-going review is now required.

You will know that Lord Shepherd also tendered his resignation as Chairman of the Board, and I have written thanking him and other members of the Board for all their work. May I take this opportunity to repeat those thanks directly to you.

Yours sincerely

Raymond Sheppard

R.E. Holland, Esq.

HL



FILE

JD

CC LPO



10 DOWNING STREET

THE PRIME MINISTER

6 July 1981

Dear Mr. Russell.

Thank you for your letter of 25 June tendering your resignation from the Civil Service Pay Research Unit Board. I quite understand that you feel this to be necessary, following the Government's decision to withdraw from the present Civil Service Pay Agreements and to run down the staff of the Pay Research Unit.

As you know, the Government has now announced its decision to set up an independent inquiry, chaired by the Rt. Hon. Sir John Megaw, to make recommendations on future arrangements for determining Civil Service Pay. The present system has lost public confidence and we have come to the conclusion that a thorough-going review is now required.

You will know that Lord Shepherd also tendered his resignation as Chairman of the Board, and I have written thanking him and other members of the Board for all their work. May I take this opportunity to repeat those thanks directly to you.

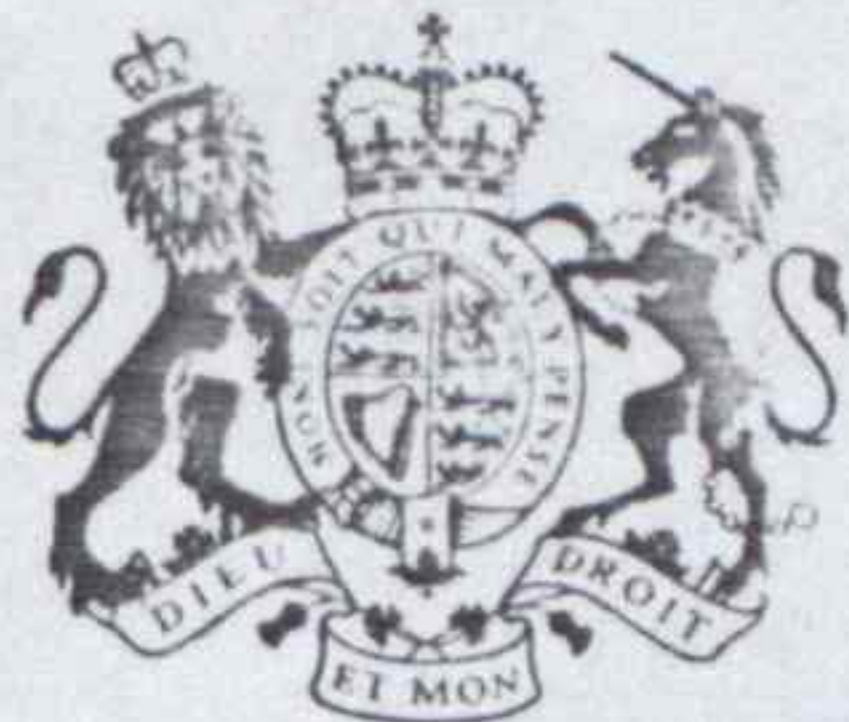
Yours sincerely

Raymond Stobart

G. Russell, Esq.

He





FILE

JD

CC LPO

10 DOWNING STREET

THE PRIME MINISTER

6 July 1981

Dear Nevyn,

Thank you for your letter of 25 June tendering your resignation from the Civil Service Pay Research Unit Board. I quite understand that you feel this to be necessary, following the Government's decision to withdraw from the present Civil Service Pay Agreements and to run down the staff of the Pay Research Unit.

As you know, the Government has now announced its decision to set up an independent inquiry, chaired by the Rt. Hon. Sir John Megaw, to make recommendations on future arrangements for determining Civil Service pay. The present system has lost public confidence and we have come to the conclusion that a thorough-going review is now required.

You will know that Lord Shepherd also tendered his resignation as Chairman of the Board, and I have written thanking him and other members of the Board for all their work. May I take this opportunity to repeat those thanks directly to you.

Yours sincerely

The Baroness Pike

JLL



B. R.  
TELEPHONE CONVERSATION BETWEEN THE PRIME MINISTER AND LORD LEVER  
ON SUNDAY 5 JULY

---

Lord Lever: Good afternoon Prime Minister.

Prime Minister: Harold, how are you?

Lord Lever: I'm well thank you. I've had rather a nasty . . . you can hear the croaking that remains of it, had a week's nasty cold but I'm just about recovering.

Prime Minister: Oh I'm so sorry. We always get a bad summer cold - I always do and when they come they're always much much more difficult to get rid of than winter colds.

Lord Lever: That's right and I think it's now on its way out. And are you well?

Prime Minister: Harold I think you have been talking to Woodrow about this inquiry into civil service pay which I see Woodrow has very naughtily panned in this column today.

Lord Lever: Oh I haven't seen Woodrow's column today.

Prime Minister: Well he says it should have reported earlier etc. etc. He has been a bit difficult today, Woodrow. But you know we appointed a judge, a retired judge, not a judge because I didn't think it a job for a judge.

Lord Lever: No Megaw.

Prime Minister: . . . but a retired judge. The reason a retired judge was appointed was really to give the Civil Service some sort of confidentiality that it would be wholly impartial and I was asking if you would serve on that Committee.

Lord Lever: Well of course Prime Minister. Any help you need - I would do that. It won't be too onerous in time will it?

Prime Minister: No I don't think it will be too onerous in time and what I do want Harold is someone to push it along.

/ Lord Lever:



Lord Lever: Ah well I'm good at that at any rate because I don't believe in letting it fall into a torpor. You know with the steel strike, Prime Minister, they came to me on Thursday and they said well a week on Friday we could sit down and have the preliminaries. I said well I want the strike settled by then and I made them . . .

Prime Minister: . . . sit down there and then. Well I suspect that these folk will want to take some evidence or something.

Lord Lever: Oh they'll need more time for this I know.

Prime Minister: And I myself I don't think that things are improved by taking a week or a month between meetings.

Lord Lever: Nor do I that's the fault of Select Committees.

Prime Minister: Yes it depends upon the amount of priority that one's actually prepared to give right at the beginning and the impetus. Let me tell you who I am asking. You are the only one I am asking myself, Harold.

Lord Lever: Well that guarantees no refusal.

Prime Minister: Bless you. I am asking Lady Seear, Alan Lord - you remember him.

Lord Lever: Oh yes absolutely first class.

Prime Minister: Bob Ramsay of Fords - I think he has just retired.

Lord Lever: Oh you've got a good team.

Prime Minister: And George Russell. Isn't he Alcan?

Lord Lever: Oh yes I've met him. I did some negotiation with him years ago in connection with our pre-payment of debt. I think is the man I met.

Prime Minister: And I think he was also on the Pay Research Unit - I thought we had better have someone on there who knew exactly why it wouldn't do because they were comparing a lot of people like public bodies.

Lord Lever: You don't have to tell me about this.

/ Prime Minister



Prime Minister: I know. Now there's a new chap who someone said was quite good. We thought we ought to have a small businessman in. Now he might be lightweight - I don't know who he is - but someone has recommended him a chap called James Ackers, totally unknown.

Lord Lever: The one I know of the small businessmen is a man called Brian Kingham and he struck me as being a very intelligent chap. But you will know more about this now than I recall. You've got a civil servant called Walter Ulrich who is a Deputy Secretary in the . .

Prime Minister: Scottish Office now.

Lord Lever: Is he Scottish Office.

Prime Minister: He used to be in . . .

Lord Lever: . . . Education. Oh you have banished him to Siberia, poor Walter.

Prime Minister: Well my dear I was in Education that's why I know the name.

Lord Lever: Ah well he's a very able man and if you have a word with him he's quite shrewd on that - I mean he's an able and abrasive man and I was able to get the benefit of his ability and I accept quite readily his abrasiveness now.

Prime Minister: I like them abrasive - they've got some personality. And then the economist I thought Christopher Foster is very good. He is Coopers and Lybrand and he is quite abrasive and I believe in one or two abrasive people.

Lord Lever: Well you have got a very strong Committee together.

Prime Minister: Yes and then we're asking and I just hope he will do it, Gavin Laird, the trade unionist, he's AUEW, he's a Scot and also a trade union member.

Lord Lever: Well I hope he'll come on.

Prime Minister: So do I because I've got more faith in him, apart from Frank Chapple and we can't use him.

/ Lord Lever



Lord Lever: He's very very good but he's type-cast now of course.

Prime Minister: I'm afraid so that's the trouble and it doesn't do him any good you see. Anyway those are the ones who are being asked this weekend and I was asking you and the others are being done, as it were, by someone else.

Lord Lever: Well I will accept.

Prime Minister: Well I will get them to write formally.

Lord Lever: And I will write back formally.

Prime Minister: Harold we must meet again soon.

Lord Lever: I look forward to it.


Prime Minister: All right. And your cold is sounding better, even since the beginning of the conversation. Bless you. Thank you very much. Goodbye.



Civil  
pay



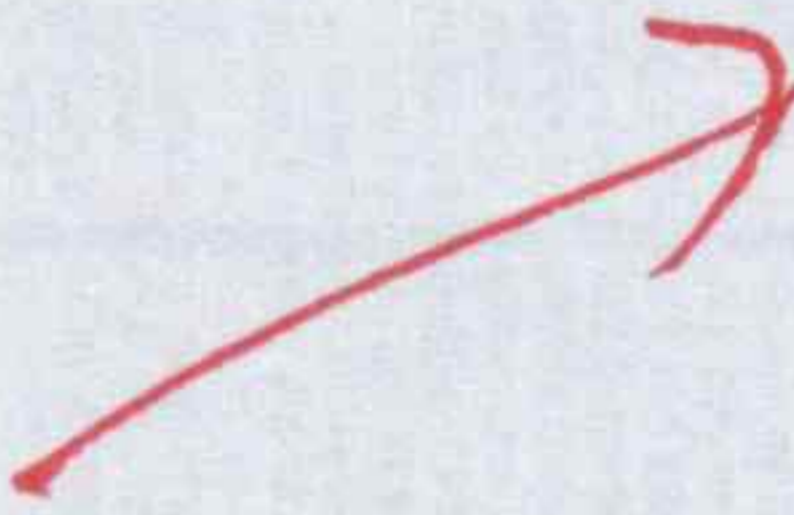

10 DOWNING STREET

Mr A 

Has Fortu

accepted?

see Attached of think he will  
note. accept by  
close of play  
Friday.



MR. WHITMORE

John Hoskyns

Can you now ring Foster Mr.

Jim Buckley 'phoned to say that the Lord President had now seen Megaw. Megaw was content with all the Members,

His one proviso is Ackers of whom he had never heard. He considered him a calculated risk, but was prepared to accept the judgment of others.

not at school with him ?!

He considered that a team of six would be enough, so that two of the present proposed team could fall out before we have to look for others. He did have some additional names in mind himself if they became necessary.

Buckley said that the way is now clear for:

1. the Prime Minister to approach Lord Lever;
2. John Hoskyns to approach Christopher Foster if that is what was intended.

MAP

3 July 1981

Just comment on Pastorian Establishment reflex!



**SECRET**

From for 9.20 mtg.

8

- NOT TO BE COPIED -

12. COPY NO. 1

PRIME MINISTER

cc. P/S Chancellor  
Mr. Hoskyns  
Mr. Downey

CIVIL SERVICE DISPUTE

copied to Mr. Whitmore  
Mr. Hankover,

After your discussion with the Chancellor yesterday evening, which followed your meeting on the Civil Service dispute, John Hoskyns and I agreed with him that we should try and commit to paper a plan for bringing the dispute to an end, incorporating the ideas we discussed.

Our objectives are:

1. to preserve the cash limits intact;
2. to bring about a settlement soon; but
3. to be widely seen as having won.

To this end the necessary features of our handling of the dispute should be:

1. Not to concede any form of arbitration for next year, because it would breach next year's cash limit;
2. To provide both a stick and a carrot, because the carrot on offer is insufficiently attractive to bring about a settlement unless we have raised the potential costs to the unions of continuing; and
3. Not to lead us into a blind alley if this effort fails. The plan outlined would still leave us holding useful cards - the operative date, and perhaps a management-organised ballot - even if the unions walked out of the discussions.

I understand from CSD that the Lord President will be considering over the weekend advice from his officials on how to proceed. The CSD's approach is likely to differ from ours in a number of ways, but of course we should not prejudge what the Lord President may decide:

/ 1. They

**SECRET**



SECRET

- 2 -

COPY NO. 1

- NOT TO BE COPIED -

1. They may think the carrot insufficient unless something is conceded on arbitration for 1982;
2. They may not want to make the operative date <sup>threat</sup> that explicit; and
3. They may prefer to say that the extra ½% can be financed from manpower savings already achieved. No

Such an approach would not accord with our objectives, nor with our assessment of what is needed to bring about a settlement.

Do you agree therefore, that subject to the Chancellor's comments (I have had a preliminary word about it with Gordon Downey):

(a) The attached plan is worth trying?

(b) A meeting of E should be called as soon as possible, perhaps Tuesday? -

(c) The Lord President should be told what you have in mind, and asked to bring to the meeting details of the feasibility of the manpower savings, and of withdrawing the operative date?

(d) The attached plan should be turned into a paper suitable for circulation at the meeting?



JOHN VEREKER

3 July 1981

SECRET



NOT TO BE COPIED

STEPS TOWARDS A SETTLEMENT OF THE CIVIL SERVICE DISPUTE

1. Essential Preconditions

- (a) Plug any potential leaks. We must not let any suggestion that the Government is softening appear publicly. (Bernard Ingham will, if asked, tell the Lobby that the Government is standing firm; papers circulated will be kept to an absolute minimum.)
- (b) Confirm the feasibility of the "jobs or  $\frac{1}{2}$  per cent" offer: how many more jobs would have to go, and how would we prove it since we have not announced a target for April 1982? (£30 m. would be 3,000 jobs at £10,000 per job; the CSD are working on this now.)
- (c) Take legal advice on withdrawal of operative date. How much notice do we have to give? Does that close off any subsequent options, such as selectivity? (The CSD should be asked to consult Lord Chancellor's Office about this.)

2. Ministerial Agreement

We need agreement in E: other groups are affected by the extra  $\frac{1}{2}$  per cent, and some Ministers (e.g., Mr. Jenkin) are strongly opposed to non-selectivity. So the remaining steps should be put to E on Tuesday, on the basis of an oral discussion (or a paper circulated at and withdrawn after the meeting).

3. The Stick

Lord Soames should announce on Wednesday that the Government has decided, in view of the COCSU decision to continue industrial action despite the enquiry being set up, "that unless industrial action ceases by 15 July, the operative date will be withdrawn". He explains that this means the Government is no longer committed to 1 April. The new operative date will be subject to negotiation in the light of the progress of the

/ dispute.



NOT TO BE COPIED

- 2 -

dispute. At the same time he announces the other members of the inquiry team.

4. Approach to the Unions

The Unions should then be told privately (CSD can decide by what channel) that the Government is ready to let them off the hook; that there is not much to offer but a face-saving formula might be possible; and that the Government would like to re-open negotiations, provided these are kept informal and are not attended by publicity (which would make it impossible for either side to compromise). If the stick has been wielded, this carrot should get them to the table.

5. The Deal

CSD should be allowed to say how the negotiations should be conducted, but it might be best to settle the deal privately at official level, and then have it endorsed by Ministers. However it is done, the elements of the eventual package are:

- (i) The restoration of the operative date to 1 April.
- (ii) The restoration of lost seniority, leave and pension rights but not of lost pay to those who have been on strike.
- (iii) The offer increased to 7½ per cent in return for union agreement to an additional 3,000 (?) fewer jobs by 1 April 1982, plus union understanding that the Government will say publicly that the unions chose money not jobs.
- (iv) A re-affirmation by the Government that, although they are not committed to arbitration in 1982, they do not rule it out.

/ (v)



NOT TO BE COPIED

- 3 -

- (v) Some token concession on the enquiry - perhaps, if the rest of the team is satisfactory, let the unions propose one member.

6. The Public Presentation

Ministers should defend this deal on the grounds that:

- (i) The cash limit is intact;
- (ii) The extra  $\frac{1}{2}$  per cent represents a direct trade off between jobs and wages. We regret that the unions chose wages; if others do the same, obviously unemployment will rise.
- (iii) It is a step towards restoring good relations between the Government and its employees, who are in general a hard-working and dedicated bunch who were led astray by the illusion that public servants were immune from the pressures that have operated in the private sector;
- (iv) Yes,  $7\frac{1}{2}$  per cent is more than some other public sector groups have got; but we are not running an across the board incomes policy [and the dispute was starting to cost the taxpayer money].

3 July, 1981.





NOTE OF A MEETING IN THE CHANCELLOR OF THE EXCHEQUER'S ROOM, HM TREASURY  
ON FRIDAY, 3RD JULY, 1981

## Present:

Chancellor of the Exchequer  
 Chief Secretary  
 Financial Secretary  
 Sir Douglas Wass  
 Mr. Ryrie  
 Mr. Gordon  
 Mr. Middleton  
 Mr. Monck

Sir Lawrence Airey )  
 Mr. Boyd ) Inland Revenue  
 Mr. Muir )

Sir Douglas Lovelock )  
 Mrs. Strachan ) Customs & Excise

-----  
CIVIL SERVICE PAY DISPUTE

The meeting had before it a minute dated 30 June by Mr. Middleton reporting the latest position on the financial effects of the dispute, and a note dated 2 July by Mr. Downey on tactics.

2. Mr. Middleton said that his minute recorded the result of a thoroughgoing review of the recovery period which would be needed following the Civil Service dispute. The main conclusion was that recovery looked like being a good deal slower than had previously been thought, partly as a result of assuming the dispute would continue for one more month, and partly reflecting more thorough assessment of what was involved in the recovery process, on which both revenue departments now took a gloomier view. It should be borne in mind that should the strike continue beyond the end of July, the effects would be very much worse, and would be felt well into the financial year 1981-2. Mr. Ryrie said that an important conclusion to be drawn from the report was that the Government's interest in getting a settlement to the dispute, but not of course a climb-down, was markedly greater than previously.





Added to the gloomier assessment of the length and difficulty of the recovery process was the danger to interest rates and the present general unease about the exchange rate. Sir Douglas Lovelock and Sir Lawrence Airey said they agreed generally with the analysis in the report, though emphasising that there was a considerable degree of uncertainty about the length and difficulty of the recovery process.

3. In discussion, it was pointed out that one of the difficulties in predicting how long it would take to recover from the dispute was that so much would depend on the attitude of the staff concerned. The degree of co-operation would depend to a large extent on the precise terms of the settlement. The Council of Civil Service Unions had already ruled out overtime as a means of catching up with the backlog, though it remained to be seen whether staff would in practice turn down the opportunity of overtime work. In the Inland Revenue certainly they had in the past always obeyed union directions on this point.

4. Discussion then turned to ways in which the dispute might be brought to an end. It was pointed out that two to three weeks ago it might have been possible to secure a settlement on the basis of a half per cent increase in the basic offer but without any further undertaking about 1982, at that stage the union leadership had suffered a crisis of confidence and they might well have settled had they felt they were being offered a way off the hook. It was more doubtful whether this would still be the case, given the hardening of attitudes that had occurred since the breakdown of the talks. Nonetheless a small improvement in the offer, if it were deemed politically possible, would make a considerable difference. The best way of discovering union attitudes on this point might be to take informal soundings of the leadership; certainly it would be most unwise to put the additional offer firmly on the table before it was clear whether or not it would be sufficient to end the dispute. Another possibility would be to undertake a direct ballot of the non-industrial civil service. This would be a difficult and time-consuming operation but it was





technically feasible. The exercise would however take at least a month; and the CSD was strongly opposed to it, because of the danger of getting the wrong answer.

5. As well as offering a slight concession, it might well be necessary to escalate the Government response at the same time in order to bring an end to the dispute. One possibility which offered a way of directly attacking already vulnerable union funds would be to stop the arrangement under which departments deducted union dues directly from salaries and passed them to the unions. Two weeks' notice was thought to be needed in order to suspend the arrangement, so that it would be technically possible to bring it to an end for the July salary payment. While the unions would undoubtedly attempt to collect their dues directly, there could be little doubt that they would find this extremely damaging. This form of escalation would of course be seen as highly provocative, and all the effects would need to be properly appraised before it was decided to proceed with it.

6. Discussion then turned to the possibility of announcing that from a certain date the Government's offer of 7 per cent would be withdrawn, either generally, or in respect of those who continued to take industrial action. It was argued on the one hand that a general threat to withdraw would put considerable pressure on the unions to settle, because many people would be counting on getting their back pay to pay for holidays and other commitments. Against this, it would be regarded as a slap in the face by those who, in the face of considerable abuse, had remained loyal and were helping to keep the 75 per cent or so of revenues flowing in. If the offer were withdrawn, it was extremely unlikely that the staff concerned would be willing to put themselves out in the same kind of way should there be a further dispute in 1982. The selective route was therefore more promising, but it would be technically and mechanically much more difficult. It was also doubtful whether it would be very effective, given that those who had been called out on strike from day one of the dispute would scarcely be influenced, since they had no back pay coming in any case. It would be open to the unions to minimise the effects by increasing

\*The Lord President had, however, told the Prime Minister 12 months was required.





the selectiveness of the action, concentrating their effort where they felt it was doing less damage, i.e. the collection of Government revenue.

7. A further option for escalating the dispute would be to find an area of work not of crucial importance to the Government and seek to provoke large-scale suspensions under TRD by, for example, directing staff to carry out work they regarded as blacked or as otherwise unreasonable. However the revenue departments, which had already borne the brunt of the action, should not be regarded as suitable candidates for a ploy of this kind.

8. There was a brief discussion of the merits of imposing a 7 per cent settlement. The aim would be to make clear that so far as the Government was concerned all negotiation about this year's settlement was finished and thus there was no point in going on with the dispute. However it was doubted whether the Union Side would agree to stop playing just because the Government said the game was over; it was far more likely that selective action would continue, with the pressure on the unions to settle if anything reduced.

9. Finally there was a brief discussion of the possibility of looking for a formula of some kind for 1982 if this proved in the end the only way of ending the dispute. It was suggested that although CSD were thought still to hanker after arbitration, this could land the Government with an unpredictable, and probably very large, commitment and was thought not to be a starter. Some sort of undertaking to match average private sector settlements during 1981-82 might be less damaging; though it could still prove to be a highly dangerous sort of commitment of the sort which was too frequently undertaken in haste and repented at leisure in past disputes. If it were decided to explore these possibilities, some rapid work would be needed in conjunction with the Department of Employment on ways in which the material in the new Earnings Survey might be used. But there was little disposition to consider this option, at least until such time as





it became clear a settlement could not otherwise be achieved.

10. The Chancellor, summing up the discussion, said that at the meeting with the Prime Minister last night some concern had been expressed about the adequacy of the machinery within Government for appraising developments in the dispute and recommending the best tactics in response to new developments. There was some feeling that the inter-departmental Committee chaired by Mr. Hayhoe was more concerned with gathering intelligence and reporting developments than with analysing options and recommending tactics. A small group within No.10, involving also Sir Robert Armstrong, had been asked to carry out an appraisal of the current situation and to draw together a list of options for the Prime Minister to consider. He was concerned that the result of the present discussion should be fed into these deliberations.

11. The main conclusion was that the cumulative effect of the strikes on the flow of revenues had now become sufficiently serious to make it more desirable than earlier to reach an early end to the dispute, if this could be done on non-damaging terms. The best way of achieving this would be a judicious mixture of carrot and stick; the least damaging carrot would be a small increase in the amount currently on offer, up to a half per cent, and this should only be put forward if informal soundings of the union leadership indicated that it seemed likely to work the trick. He would be profoundly uneasy about making any kind of commitment about 1982, and he was certain the Prime Minister would share this view; though on a contingency basis only, Mr. Downey should arrange for a study of the kind of possibility he had outlined to be carried out purely within the Treasury. So far as sticks were concerned, it was agreed that by far the most promising approach would be to end the arrangement under which union dues were deducted from salaries and passed to the unions; the implications of this option should be urgently studied further, with a view to ending the arrangement from the end of July if it was decided to go ahead. Withdrawal of the





pay offer on a general basis was opposed because it would penalise those who had stayed loyal, with serious implications for any future dispute. A selective cut-off was less objectionable, but there were doubts about its feasibility from a technical point of view - it would certainly be difficult - and also about its effectiveness.

PJ

P.S. JENKINS

3 July 1981

-----  
Distribution:

Those present  
MST (L)  
Mr. Dixon  
Mr. Burr  
Sir Robert Armstrong  
Mr. Lankester)  
Mr. Hoskyns ) No.10  
Mr. Vereker )





1. CFA  
2. Miss Porter

10 DOWNING STREET

THE PRIME MINISTER

3 July 1981

Dear Mr Mills

Thank you for your letter of 25 June tendering your resignation from the Civil Service Pay Research Unit Board. I quite understand that you feel this to be necessary, following the Government's decision to withdraw from the present Civil Service Pay Agreements and to run down the staff of the Pay Research Unit.

As you know, the Government has now announced its decision to set up an independent inquiry, chaired by The Rt Hon Sir John Megaw, to make recommendations on future arrangements for determining Civil Service pay. The present system has lost public confidence and we have come to the conclusion that a thorough-going review is now required.

Notice of the Government's intention of withdrawal from the Pay Agreements was given to the Secretary General of the Council of Civil Service Unions on 11 June, under the terms of the 1974 Pay Agreement. The Director of the Pay Research Unit was kept fully informed of this decision, and received copies both of the letter to the Council of Civil Service Unions, and of the Lord President's letter to the Chairman of your Board which was sent on the same date.

You will know that Lord Shepherd has also tendered his resignation as Chairman of the Board, and I have written thanking him and other members of the Board for all their work. May I take this opportunity to repeat those thanks directly to you.

Yours sincerely

MT

Leif Mills, Esq

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10 DOWNING STREET

From the Private Secretary

3 July 1981

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et. Master etc

INQUIRY INTO CIVIL SERVICE PAY: MEMBERSHIP

The Prime Minister discussed the membership of the Civil Service Pay Inquiry with the Lord President, the Chancellor of the Exchequer and the Secretary of State for Employment last evening. The Lord President had previously sent the Prime Minister a minute dated 1 July with his proposals.

All the names in the Lord President's minute were agreed. The Lord President was asked to consult Sir John Megaw on them immediately. Providing Megaw was content, the Lord President should then approach Lady Seear and Mr. Russell; the Chancellor should approach Mr. Ackers and Mr. Lord; the Secretary of State for Employment should approach Mr. Laird and Mr. Ramsay; John Hoskyns should approach Mr. Foster; and the Prime Minister would approach Lord Lever. The aim should be to announce the membership as early as possible next week. The Civil Service unions should be informed of the membership in advance of the announcement, but they should not be consulted.

I am sending a copy of this letter to John Wiggins (HM Treasury), Richard Dykes (Department of Employment) and David Wright (Cabinet Office).

T. P. LANKESTER

Jim Buckley, Esq.,  
Lord President's Office.

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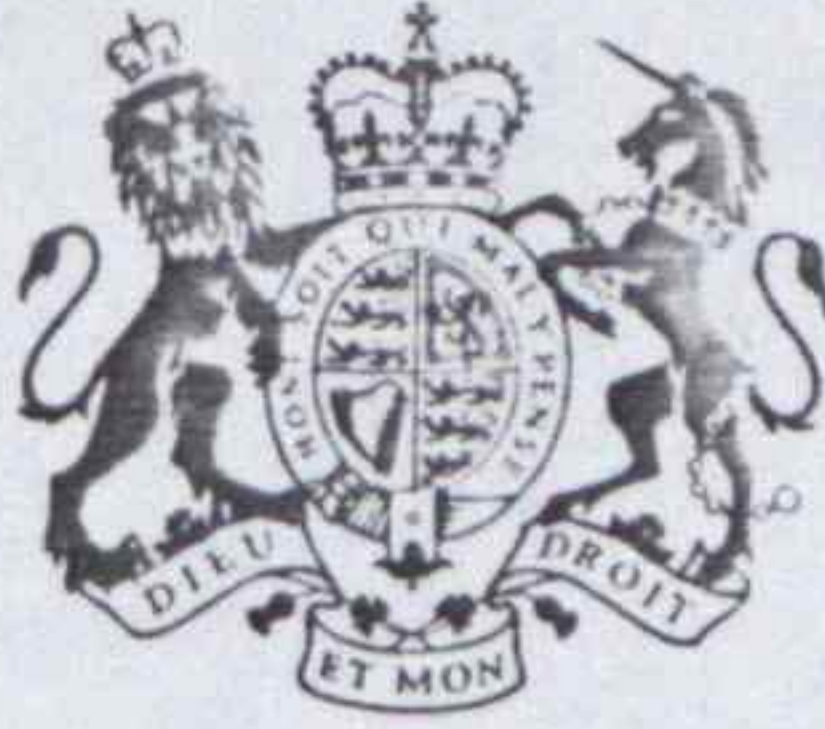
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From the Private Secretary

3 July 1981

cc: [unclear] [unclear]

Dear Tim,

As you know, the Prime Minister held a meeting last evening with the Lord President, the Chancellor of the Exchequer and the Secretary of State for Employment to discuss the Civil Service dispute. Sir Robert Armstrong was also present.

The Lord President said that, at the meeting of the Council of Civil Service Unions (COCSU) earlier that day, the unions had been unable to reach unanimous agreement. The majority of unions had said they would continue with selective action; but the CPSA had said they would consider going for an all-out strike. In his view, industrial action was likely to continue at roughly its present level; it seemed unlikely that the unions would be able to step up their action significantly because they were short of money. The COCSU would be meeting again on 14 July.

The Lord President went on to say that he would very much like to bring the dispute to an end. He had therefore been reconsidering the options for bringing pressure on the unions. There were severe practical difficulties in changing the operative date of the offer on a selective basis. On the other hand, changing the operative date for all civil servants, whether they had taken strike action or not, would have a very damaging effect on the morale of the Civil Service. There was a third option which might be worth considering: the offer could be withdrawn without indicating what the new operative date would be. This would provide something for the union side to come back to the negotiating table to discuss, and it would not involve the Government taking a fixed position in advance. It could be announced immediately after the next COCSU meeting, assuming the latter decided to continue with the action. However, this option was also a step into the unknown, and he could not deny that it too would involve significant risks, particularly as it might affect morale.

In discussion, it was argued that the Lord President's third option should be seriously considered. Its universal application would look more justifiable if it could be shown that a large number of civil servants had taken industrial action at some time or other during the course of the dispute. It would be worth checking on the numbers who had been involved. It was also suggested that other possible measures of strengthening the Government's position should be examined. For example, it seemed absurd that the

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Government was collecting the unions' dues by deductions from monthly pay cheques. (The Lord President said that any change in this practice would require twelve months notice.) On the other hand it was suggested that Ministers should reconsider the idea of offering an extra  $\frac{1}{2}\%$  on the basis that this would be found, by additional manpower savings, from within the 6% cash limit. An extra  $\frac{1}{2}\%$  might be sufficient to get the unions off the hook; but they might well insist on a further concession for 1982 as well. If an extra  $\frac{1}{2}\%$  were to be offered, there would have to be an absolutely clear link between it and the further manpower savings that would be required. The unions would have to be shown to be saying that they preferred the extra  $\frac{1}{2}\%$  at the expense of fewer jobs. Against this, it was argued that it was wrong in principle for the Government to be offering the unions this trade-off; the Government was telling the public that more pay meant fewer jobs, yet in a situation where it had responsibility for setting the pay level, it was in effect opting for fewer jobs.

In conclusion, the Prime Minister said that further consideration should be given to how the dispute could be brought to an end. Further thought should be given to the Lord President's proposal to withdraw the offer without saying what the new operative date would be. At the same time, the Lord President, in consultation with the Chancellor, should look again at the possibility of offering an additional  $\frac{1}{2}\%$  from within the 6% cash limit, and at how it could be presented as being clearly conditional on additional manpower savings. When this further work had been completed, she herself would like to look closely at the manpower arithmetic, and at how the additional savings would be distributed between departments.

I am sending a copy of this letter to John Wiggins (HM Treasury), Richard Dykes (Department of Employment) and David Wright (Cabinet Office). Please could you all ensure that this letter (I am sending out numbered copies only) is seen on a strictly need-to-know basis only.

*Handwritten scribbles*

*Tim Lambie*

Jim Buckley, Esq.,  
Lord President's Office.





✓ Mr. Verker  
Mr. Dennis

Ann - Ann - 2 6

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

12317

3 July 1981

T.P. Lankester, Esq.,  
10, Downing Street

*MS*

Dear Tim,

THE FINANCIAL EFFECTS OF THE CIVIL SERVICE DISPUTE

When I wrote to you on 8 June, I said that we were carrying out a thorough review of the recovery period after the Civil Service strike. The review has now been completed, and the results are in the attached note, which has been agreed with the Revenue Departments.

In the last assessment, we pointed to the build up in the interest cost (to £80 million by the end of May and £140 million by the end of July) and the fact that the recovery could be a long one. But we thought that it would be unlikely that there could be an adverse effect on this year's PSBR. This view has now been changed. The recovery looks like being a good deal slower than we previously thought:

- (a) To some extent this is the result of assuming the dispute continues for another month - each extra month adds something like two months to the recovery. The combination of trying to get back to normal working and recovering the backlog gets progressively more difficult.
- (b) It also reflects a more thorough assessment of the process of recovery on which the Revenue Departments now take a more gloomy view.

We therefore now think that the recovery will be so slow that the loss of revenue as a result of the strike will exceed the saving for this year's CGBR which resulted from the diversion of revenue from 1980-81 to 1981-82. More important perhaps, because it will be a once and for all addition to public expenditure, is the effect on the interest charge. Because of the delayed recovery this continues to cumulate. And though we have not significantly changed our estimate of the cost up to the end of July, the total cost for the year now seems likely to rise to around £500 million. The monetary numbers are likely to be confused for the whole year.

Yours  
John

(A.J. WIGGINS)

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RECOVERY FROM THE CIVIL SERVICE DISPUTE

Following the decision of the Civil Service unions to carry on with selective action to disrupt the flow of tax revenue, a fresh assessment has been made of the likely cumulative consequences of the strike for Central Government finances and the money supply. It assumes that the strike lasts one more month, until the end of July, and that staff subsequently provide full co-operation. Its main implication is that, even on an optimistic assessment, it is unlikely that much more than 80% of the delayed revenue can be recouped within this financial year. A total of over £1200 million delayed revenue will therefore still be outstanding by April 1982, raising the CGBR in 1981/82 by over £300 million - in addition to the £880 million excess already incurred in 1980/81. On top of this, some £500 million in extra interest may have to be paid out in financial year 1981/82, representing a permanent cost. There have also been reports that British Airways has already suffered permanent losses of £40 million.

Revenue delays

2. It is not possible to obtain any direct figures for the amount of revenue held up by the dispute. By comparing outturns with forecasts prepared before the strike, however, it is estimated that by the end of calendar June about £4½ billion of tax revenue had been delayed. This total is likely to rise to about £6 billion by the end of July. The bulk of it is in the form of late PAYE and National Insurance payments, but up to £1 billion represents a net loss of Customs and Excise receipts, notably on VAT.

3. The process of recovery is likely to take a long time even with the full co-operation of the staff (which the Departments advise us is a highly optimistic assumption given the current state of morale and tensions inside local offices). Both Inland Revenue and Customs and Excise do have already to hand a fair quantity of unprocessed cheques, the larger ones of which

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can probably be banked quickly on settlement of the dispute, although there will be some problems with out-of-date or cancelled cheques. This operation could produce perhaps £800 million of revenue within a fairly short period. But it will be necessary for Customs and Excise to give priority in the early stages to overdue repayments of VAT, reducing the net revenue gain. Furthermore, once the unprocessed cheques are cleared, the Revenue Departments will be faced with the far more difficult task of chasing the vast bulk of tax payments for which companies have not even submitted cheques.

4. In the case of Inland Revenue, approaching £1 billion of the outstanding revenue can probably be pursued within a 3-month period, because the computer files will not need updating or companies will submit their payments fairly willingly. Another £1½ billion is thought to depend on repayments of VAT etc. The remaining £2 billion is likely to take many months more to collect. Computer files will need to be updated and enforcement proceedings started at the same time as staff are expected to carry out their normal daily duties. It will probably take 5 months from the end of the dispute before many companies receive their reminders. Revenue intake will be maximised during this period by staff dividing their time between processing the larger of the new tax payments being received and work on the backlog. There is nevertheless bound to be some additional delay on new tax receipts because (for example) assessments for corporation tax are a long way behind schedule. At risk also is the £300-400 million of Schedule D tax due in July but not incorporated in this assessment. By the end of calendar 1981, an optimistic view would put the net amount of revenue outstanding to Inland Revenue still at about £1½ billion.

5. There are similar problems at Customs and Excise. It could be four months before it is possible to catch up fully with the paying-in of small-denomination cheques. The sending-out of VAT returns has also been seriously disrupted and by the time



firms receive these, followed by their reminders, they could be as much as three quarterly payments in arrears. Recovery and enforcement action will probably take up to four months to get started and firms may well only make up their arrears in installments. With repayments of necessity being given priority over the backlog of payments due, it is probable that the net total of revenue outstanding to Customs will continue to rise until the end of the calendar year, perhaps reaching nearly £1½ billion.

6. A more detailed path for the projected recovery pattern is shown in table 1. It indicates that at least £1200 million in delayed revenue will still be outstanding at the end of the financial year. Since some firms will have gone out of business during this period without having paid their VAT or PAYE due - and assessment and enforcement is bound to suffer - over £100 million of this is likely to be irrecoverable.

#### Public expenditure implications

7. The major impact on public expenditure will result from higher interest charges incurred through the delay of tax revenue. These have probably amounted to about £75 million so far (the last PQ on this issue referred to a cost of £40 million up to the end of May). The bulk of the payments are however probably yet to come. With the net amount of revenue outstanding lying between a maximum of £6 billion and a minimum of £3 billion for the rest of this calendar year, and short-term interest rates currently standing at around 12% per annum, the interest cost will probably have risen to nearly £400 million by the end of the calendar year. For financial year 1981/82 it is likely to total nearly £500 million (see table 2). This cost will be irrecoverable and represents a permanent transfer between the government and companies.

8. The actual figures quoted are of course somewhat notional: it is not possible to attribute particular costs of borrowing against particular sources (or losses) of revenue. But given



the shape of the yield curve for Government debt at the moment the total quoted is, if anything, likely to be on the low side. This would be particularly true if lack of co-operation by staff meant that even less of the revenue were collected in the early part of the recovery period.

9. The other notable effect on public expenditure is the impact on British Airways (and hence borrowing by Nationalised Industries) of the Air Traffic Controllers' dispute. Reports have recently suggested that £40 million may already have been lost by BA because of the disruption. Against this, there have been some small savings on wages and salaries in Central Government in respect of staff who have been on strike or suspended, but some small losses on social security benefits due to the difficulty of carrying out full checking procedures.

#### CGBR

10. The delays in tax revenue and additional interest payments will have a significant impact on this year's CGBR. Whilst at one time it seemed possible that there could be a net benefit to the CGBR in 1981/82 because of revenue delayed out of 1980/81, there is now almost certain to be a net loss. With £1200 million revenue still outstanding at the end of 1981/82, the net effect over the financial year is likely to be over £300 million. To this must be added the additional gross interest costs, any effects on payment of benefits or wages and salaries and (if it is financed by additional NLF borrowing) the extra losses incurred by BA. The total effect could be about £ $\frac{3}{4}$  billion.

11. The profile of the CGBR shown in table 1 is based on the latest figures emerging from the current short-term economic forecast. The forecast suggests that the net effect of factors other than the dispute would probably have reduced this year's CGBR slightly below the projection shown in the Financial Statement and Budget Report. But the Civil Service dispute will probably raise it once again to perhaps £1 $\frac{1}{4}$  billion in



1981/82. This would be consistent with a PSBR of just over £10½ billion, compared with a projection of £10½ billion for the PSBR shown in the FSBR.

Money supply

12. We would expect a large part of the losses in tax revenue to show up in the money supply, £M3. Although some of the reduction in tax payments will be used to reduce borrowing (pay off overdrafts) or will be invested in other financial assets, up to two-thirds is liable to be kept on deposit at the banks. Evidence for the three banking months for which we so far have some information has been fairly difficult to disentangle but this assumption does not look unreasonable. We do know, however, that comparatively little is being kept on current accounts; the bulk is presumably being held in time deposits.

13. By the end of banking August (19 August) nearly £6 billion of the revenue will probably still be outstanding and about £150 million of additional debt interest costs will have been incurred by the Government. The effect on £M3 will probably be to raise its level by about 5%. Although there is of course still considerable uncertainty about the likely course of underlying monetary developments between now and mid-August, this could mean that cumulative monetary growth in the first six months of the current target period will approach the total allowed for in the whole fourteen-month period. It is highly likely that the total will be exceeded before the end of the calendar year, when £M3 will still be inflated by about 3% as a result of the dispute.

14. It is generally accepted that temporary deviations of the money supply from the target path should not have any significant effect in the long term. This is particularly true when the cause of the deviations is widely known and the prospect of reversal is assured. For the first couple of months of the Civil Service dispute these conditions seemed likely to be



satisfied, particularly as companies seemed to be holding their extra money in their current accounts in case their outstanding tax needed to be paid promptly. With the prospect of a long strike and protracted period of recovery, however, the situation may be somewhat different. Companies have clearly already moved some of their excess funds into more lucrative homes, taking advantage of the additional income (or lower costs) available to them from the interest payment they can attract. They may also have used their improved cash flow position to increase their expenditure - by, for instance, reducing stocks less quickly than they would otherwise have done, laying off less labour or being less resistant to demands for higher wage settlements or input prices. These are the sort of potentially inflationary effects we would expect to be associated with an overrun of the budget deficit and the monetary target. They would normally need to be offset within a fairly short period by fiscal or monetary measures. In the case of the Civil Service dispute, we expect this to happen automatically (except for the permanent losses of tax revenue and interest payments) but the process will clearly take some time.

15. By the end of financial year 1981/82 (and the current target period) we expect the level of  $\text{£M3}$  to be between 1% and 2% higher than it would otherwise have been, assuming that the dispute is settled at the end of July.

#### Money markets

16. The dispute has created far easier conditions in the money markets in recent months. The Bank of England has been able to unwind a large proportion of the special assistance it provided (largely in the form of purchases of commercial bills) in the period up to end-March. The effect has been to disguise what in underlying terms has remained a very tight situation. With the recovery now expected to be protracted, however, few difficulties are foreseen for the rest of this calendar year. The one exception may be the first few days of September, when very large payments



of PRT and Supplementary Petroleum Duty could coincide with the clearing of substantial late payments into Inland Revenue and Customs and Excise. For a very short period, it may be necessary to supplement bill operations with other forms of market assistance such as direct lending to the discount houses. It should be possible, however, to unwind this quickly.

Information

17. The dispute has had a serious effect to date on information flows. Not only has it prevented us from judging whether or not the "underlying" CGBR has been on its expected track so far this financial year; it has also disrupted data on foreign trade and made the underlying monetary situation difficult to assess. The unwinding of the dispute will mean that the Revenue Departments will continue to have difficulty in establishing the underlying strength of tax receipts and the monetary figures will be further distorted. It may be possible to resume the collection of trade data but there will be some trade-off between early progress on this and the quicker recovery of revenue.



TABLE 1

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## CIVIL SERVICE STRIKE AND RECOVERY-EFFECTS ON CENTRAL GOVERNMENT REVENUE (1)

	1981-82										1982-83 Q2	Irrecoverable	
	1980-81	Q3 '81			Q4 '81		Q1 '82		Q2				£ million
	Q1 '81	Q2 '81	July	Aug	Sept	Q3 '81	Q4 '81	Q1 '82	Q2				
Strike effect on revenue within quarter/month	-880	-3,570	-1,550	+735	+685	+1,280	+2,100	+1,075	+125				
cumulative (end-period)	-880	-4,450	-6,000	-5,265	-4,580	-3,300	-1,200	-125					
of which (within quarter/month):													
Inland Revenue and National Insurance	-610	-3,090	-1,300	+635	+885	+1,780	+1,000	+600	+100				
Customs and Excise net receipts	-270	-480	-250	+100	-200	-500	+1,100	+475	+25				
Gross receipts	(-470)	(-1,780)	(-750)	(+500)	(+300)	(+600)	(+1,100)	(+475)	(+25)				
VAT repayments	(+200)	(+1,300)	(+500)	(-400)	(-500)	(-1,100)	( - )	( - )	( - )				
CGBR including strike effect (2)													
within quarter		7,600		3,300		2,300	-1,900						
cumulative		7,600		10,900		13,200	11,300						
CGBR as forecast in FSR(3) (estimated quarterly path) cumulative		5,300		7,600		10,800	11,500						

(1) Assuming the strike ends on 31 July 1981 and staff return with full co-operation.

(2) The figures are based on the latest estimates emerging from the STEF (not seasonally adjusted) amended crudely to take account of the strike effect as shown above and additional interest costs.

(3) These figures do not take account of recent policy changes eg Gas Levy, DERV duty.



TABLE 2

INTEREST COST OF THE STRIKE (1)

	£ million				
	Q1 '81	Q2 '81	Q3 '81	Q4 '81	Q1 '82
Cumulative strike effect on CGBR (revenue delay and additional interest costs only)	+880	+4,525	+4,815	+3,690	+1,690
Interest cost of strike effect on CGBR in 1981-82					
Within quarter		+75	+160	+155	+100
Cumulative		+75	+235	+390	+490

(1) Assuming the strike ends on 31 July 1981





Civil Service Department  
Whitehall London SW1A 2AZ  
01-273 4400

From the Private Secretary

2 July 1981

Tim Lankester  
10 Downing Street

*CL-MS*

*Dear Tim,*

*& type and  
submit for  
signature.*

RESIGNATION LETTERS FROM PRU BOARD MEMBERS

Thank you for your letter of 26 June.

As you know, all five independent members of the PRU Board have now written to the Prime Minister with their resignations. We recommend that she should send a brief reply to each of them. I  
... enclose suggested drafts.

The reply to Mr Leif Mills takes up his comment that notice of withdrawal from the Pay Agreements was not given directly to the PRU Director.

*Yours sincerely,  
Jim Buckley.*

J BUCKLEY



DRAFT REPLIES FROM THE PRIME MINISTER TO:-

1. Professor J R Crossley  
20 Beech Grove  
Harrogate  
HG2 PEX
2. Baroness Pike  
The Glebe House  
Hownam by Kelso  
Roxburghshire  
TD5 8AL  
Scotland
3. R E Holland Esq  
Pearl Assurance Company Ltd  
252 High Holborn  
London WC1V 7EB
4. G Russell Esq  
Alcan Aluminium (UK) Ltd  
Alcan House  
30 Berkeley Square  
London W1X 6DP

Thank you for your letter of 25 June tendering your resignation from the Civil Service Pay Research Unit Board. I quite understand that you feel this to be necessary, following the Government's decision to withdraw from the present Civil Service Pay Agreements and to run down the staff of the Pay Research Unit.

As you know, the Government has now announced its decision to set up an independent inquiry, chaired by The Rt Hon Sir John Megaw, to make recommendations on future arrangements for determining Civil Service pay. The present system has lost public confidence and we have come to the conclusion that a thorough-going review is now required.

You will know that Lord Shepherd has also tendered his resignation as Chairman of the Board, and I have written thanking him <sup>and other members of the Board</sup> for all ~~his~~ <sup>their</sup> work for the Board. May I take this opportunity to ~~extend~~ <sup>repeat</sup> those thanks <sup>directly</sup> to you.



DRAFT LETTER TO:

Leif Mills Esq  
General Secretary  
Banking Insurance and Finance Union  
Sheffield House  
17 Hillside  
WIMBLEDON  
London SW19 4NL

Thank you for your letter of 25 June tendering your resignation from the Civil Service Pay Research Unit Board. I quite understand that you feel this to be necessary, following the Government's decision to withdraw from the present Civil Service Pay Agreements and to run down the staff of the Pay Research Unit.

As you know, the Government has now announced its decision to set up an independent inquiry, chaired by The Rt Hon Sir John Megaw, to make recommendations on future arrangements for determining Civil Service pay. The present system has lost public confidence and we have come to the conclusion that a thorough-going review is now required.

~~As you will know,~~ Notice of the Government's intention of withdrawal from the Pay Agreements was given to the Secretary General of the Council of Civil Service Unions on 11 June, under the terms of the 1974 Pay Agreement. The Director of the Pay Research Unit was kept fully informed of this decision, and ~~we~~ received copies both of the letter to the Council of Civil Service Unions, and of the Lord President's letter to the Chairman of your Board which was sent on the same date.

You will know that Lord Shepherd has also tendered his resignation as Chairman of the Board, and I have written thanking him <sup>and other members</sup> ~~for all~~ <sup>of the Board for all their work.</sup> ~~his work for the Board.~~ May I take this opportunity to ~~extend~~ <sup>repeat</sup> those thanks <sup>directly</sup> to you.





pa.

R

## 10 DOWNING STREET

Prime Minister. Civil Service Dispute.

July 2.

The question of withdrawing the offer, or refusing to back-date it if not accepted, must be linked with the possibility of a Ballot of the various Unions.

This is a complicated subject, and I suggest it should be discussed at an early date. Would you like a paper setting out the options, and likely results, if Management do take a Ballot on the present offer?

On a different point, there are those who are saying that an extra half a percent might secure, or have secured, a settlement. It should be pointed out that the latest Union Demand is still of the order of 15%. You could go on to say that if the Unions were asking for 7½%, the government would have to consider their response. It is one thing to agree a demand of an extra ½%, another to offer it without the other side being near your figure in the first place.

Jim Prior doesn't like the idea of a ballot, but it hasn't been properly considered as a part of an escalation strategy. If we are going to escalate, we should consider again all the weapons available, not fire "no backdating" or "withdrawal of offer" on its own if a Ballot adds strength without increasing the risk by too much.

Daint W.





Civild  
for Service  
seam.

10 DOWNING STREET

Prime Minister

The five independent  
members of the PMU Board  
have now written resignation  
letters to you. I attach  
draft copies - the one  
to Keith Mills takes up  
his criticism that the PMU  
director was not given notice  
of his withdrawal of the  
PMU agreement.

R  
47



Civil Service Pay

Rb



10 DOWNING STREET

From the Private Secretary

2 July, 1981.

Dear Tim,

Civil Service Pay Inquiry: Government Evidence

Now that the Civil Service Pay Inquiry has been announced, the Prime Minister has been considering how the Government evidence to the Inquiry should be prepared and considered. She has now decided that she would like the Lord President to produce quickly a descriptive piece on the sort of evidence which he thinks the Government should offer to the Inquiry. When this is available, the Prime Minister will then call a meeting to consider it. She would like the Home Secretary, Chancellor of Exchequer, Lord President, Secretaries of State for Employment, Defence and Social Services, the Chancellor of the Duchy and the Attorney General to attend this meeting; and we will be in touch with you and other Private Offices to arrange a suitable date.

Once the broad content of the evidence has been settled, the Prime Minister would like the detailed evidence to be prepared by your Department, in close consultation with the Treasury, clearing it as necessary with other Departments. Provided there is adequate consultation at official level, the Prime Minister hopes it should be possible to handle much of the evidence without collective discussion by Ministers. But she would like to be kept in touch with progress.

I am sending copies of this letter to John Halliday (Home Office), John Wiggins (HM Treasury), Richard Dykes (Department of Employment), Brian Norbury (Ministry of Defence), Don Brereton (Department of Health and Social Security), David Heyhoe (Office of the Chancellor of the Duchy of Lancaster), Jim Nursaw (Law Officers' Department), and David Wright (Cabinet Office).

*[Handwritten signature]*

Jim Buckley, Esq.,  
Lord President's Office.

*[Handwritten signature]*



1.7.81



10 DOWNING STREET

Prime Minister

The Chancellor  
 definitely wants Ackers  
 on the Inquiry. The  
 way is now clear for  
 all the chosen members  
 to be approached. Could  
 you now please phone  
 Harold Lever.

He will be  
 delighted to serve  
 Please confirm  
 by letter.

Done!  
 M.L.



*Prime Minister*

*✓ Mr Haskyns  
Mr Verdon*



*We will fix an  
early date for the  
President and the  
Chancellor, as you*

PRIME MINISTER

*We discussed suggested.*

INQUIRY INTO CIVIL SERVICE PAY: MEMBERSHIP

*12  
'17*

Now that we have settled the Chairmanship of the Inquiry and announced it I would like to get on with selecting the members. Pulling together the many contributions which have been made I propose to approach the following people.

- Lord Lever
- Lady Seear
- Alan Lord
- Robert Ramsay
- George Russell *Alan*
- James Ackers
- Christopher Foster
- Gavin Laird

*Walter Ulrick  
knows  
small business.*

I think a membership of eight would be about right.

We cannot of course hope that all these would accept and I shall come back to you with alternatives when I have their responses.

Are you content for me to proceed in this way, please?

I am copying this to the Chancellor of the Exchequer, the Secretary of State for ~~Environment~~ *Employment* and to Sir Robert Armstrong.

SOAMES

1 July 1981



CONFIDENTIAL

Prime Minister

MR LANKESTER

Thurs. evening  
MS

As John Verker suggests, I think we may need an urgent meeting of Ministers. If you agree, I will try to fix this for Thursday evening or we could try for Friday morning.

cc:- Mr Duguid

CIVIL SERVICE INDUSTRIAL ACTION

There has been little discernible change in the pattern of Civil Service industrial action following the Lord President's statement establishing the Megaw Enquiry on Monday. The Inland Revenue report a slight worsening in the operation of its collection offices; but on the other hand there is a slight easing of the situation in the Ministry of Defence, and there have been indications, which may be misleading, that the Passport Officers are thinking of giving up their industrial action. Incidentally the Elsey case, with which Mike Pattison is familiar, comes up in court again tomorrow.

12  
1/7

As you know, the next development is the meeting of the Civil Service unions tomorrow, when they will again consider a call by the CPSA for an all-out strike. Their reaction to that will be partly determined by the success of their fund-raising operation: selective action is expensive for the unions, because they pay 85% of the salaries of those subject to TRD<sup>and</sup> of all those on strike, but they would not of course make up the salaries of those on an all-out strike. There are reports today, almost certainly put about by Bill Kendall, that the fund-raising is going well, but the reported increase from £300 thousand to £500 thousand relates only to one week's income, and would have to be sustained for as long as selective action was to continue.

There does not appear to have been any significant response to the Lord President's hints, which were quite widely reported, about changing the operative date. If the unions decide tomorrow either to continue selective action or to call an all-out strike, I think it is important that the Government lose no time in considering whether there is some substance to these vague threats. The arguments for doing so will be clear: the Government's position will look increasingly weak if it is <sup>not</sup> prepared ~~not~~ to take the action it has suggested, and the worsening Government revenue position makes it desirable to bring matters to a head. But, of course, the risks of escalating the dispute are well understood by Ministers.

CONFIDENTIAL

/I think,



CONFIDENTIAL

- 2 -

I think, therefore, we would be wise to plan for the possible need for a meeting of the Ministers concerned (apart from the Prime Minister, the Chancellor, the Lord President and Mr Prior) immediately after the COCSU decision is known. In view of the Prime Minister's diary on Friday and next Monday, I suppose this might have to be tomorrow evening. I think we would be unwise to wait until next Tuesday before considering our response. The meeting could usefully also have before it the Treasury's latest assessment of the effect on Government revenue.

↓  
N.

1 July, 1981

CONFIDENTIAL



1 July 1981

*C.S. Pay*  
MR LANKESTER ✓

*BF* *p.m.*

CIVIL SERVICE PAY INQUIRY

*12*

I hope that, if the Chairman of the Inquiry is not regarded as the bees' knees on cash limits and macro-economics, we will strive all the harder to ensure that there are a few people who can count up to ten sitting on the panel. By this I mean Christopher Foster in particular.



JOHN HOSKYNS



SECRET

5

AND PERSONAL

MR VEREKER

CIVIL SERVICE INDUSTRIAL ACTION

Thank you for your minute of 26 June 1981 about the financial position of the Civil Service unions.

I have explored the suggestion you make in the last sentence of your minute, but the conclusion is that there is nothing we can do along these lines.

*RAW.*

1 July 1981

SECRET

AND PERSONAL

*SP.*



CONFIDENTIAL

Dennis Austin

Yes - I will chair and have  
meeting. The Chancellor  
must be actively  
involved in prep of  
the evidence - and I  
must be kept in

Content with these  
proposals for  
handling govt.  
evidence to the  
pay inquiry?

Ref. A05182

MR. WHITMORE

Civil Service Pay Inquiry: Government Evidence

found throughout . ref

12.17

Now that the Civil Service pay inquiry has been announced, we need to give thought to the mechanics of preparing the Government evidence and for maintaining an adequate degree of Ministerial control over it.

2. The prime responsibility will rest with the Lord President of the Council, but there needs to be an arrangement whereby other senior colleagues can be consulted if necessary; and I imagine that the Prime Minister would also wish to take a close interest. On reflection I doubt whether any of our existing Ministerial Committees or Sub-Committees will serve. E is too large and the use of either of the existing Sub-Committees (E(PSP) under the Chancellor of the Exchequer's chairmanship and E(CS) under the chairmanship of the Lord President) could raise awkward problems (the Chancellor of the Exchequer will think that he ought to be in charge; the Lord President would resent it if he was). In the circumstances I think that the best arrangement would be for the Prime Minister to chair an ad hoc meeting of Ministers at the outset of the inquiry (essentially to run over the "chapter headings" of the evidence the Government will wish to give); and then to leave it to the Lord President and the CSD to clear detailed evidence around Whitehall in the usual way. Provided the CSD consult adequately at official level (and we can leave it to them to set up machinery for this purpose) it should be possible to handle much of the evidence without collective intervention by Ministers. But should occasions arise when a collective discussion is necessary the Prime Minister's group could no doubt be called together to settle any differences or to endorse policy when it is this which is at issue.

- 3. If the Prime Minister agrees, therefore, I would suggest:-
  - (a) That the Lord President might be invited to produce quickly a descriptive piece on the sort of evidence which he thinks the Government should offer to the inquiry.

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CONFIDENTIAL



(b) When this is available the Prime Minister might call a meeting to consider it: the meeting to include the Home Secretary, the Chancellor of the Exchequer, the Lord President, the Secretary of State for Employment, the Secretary of State for Defence, the Secretary of State for Social Services, the Chancellor of the Duchy of Lancaster and the Attorney General (the latter because legal issues are bound to arise at various stages as the inquiry proceeds and there would be advantage in engaging the Attorney's interest from the beginning).

4. Apart from considering the scope of the Government's evidence, it would help to clarify matters in Whitehall if the meeting were to underline the primary responsibility of the Lord President of the Council and the CSD to ensure that evidence was adequately discussed and cleared with other Departments (including at official level both the No. 10 Policy Unit and the CPRS).

RA

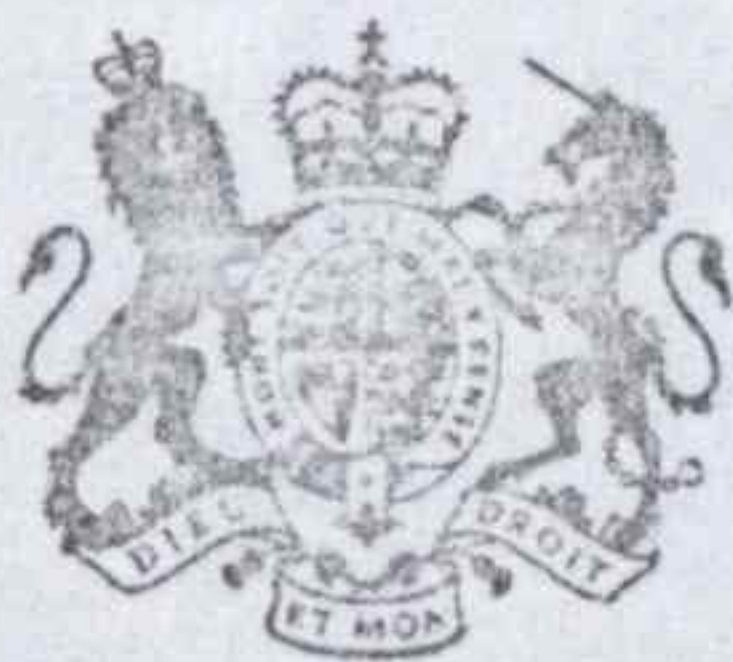
ROBERT ARMSTRONG

30th June, 1981

CONFIDENTIAL



Civil  
Service



10 DOWNING STREET

Mr Boulding (CSO)

See my letter of  
26 June. Herewith one  
more resignation letter.

12

3/76



PRIME MINISTER

---

Barney Hayhoe ploughed through the Civil Service Inquiry statement, despite Opposition attempts to make fun of it. In practice, the more difficult questions came from the Government backbenchers. (At the start, the only support on the Government front bench was the Chief Whip and one other Whip: Norman Tebbit appeared after the opening exchanges.)

For the Opposition, Alan Williams found it grotesque that, just over two years ago, you had been a most enthusiastic supporter of pay research: since then, it had been suspended, then abolished, and now there was to be an Inquiry to re-invent it under a new name. He found in the statement absolutely nothing to help the present situation. The Government were enforcing a pay limit of 7 per cent when only 380,000 public sector workers had settled at that figure or below, with over 2 million getting more than 7 per cent. Mr. Hayhoe responded that over 2 million in the public sector had settled within the 6 per cent cash limit. He pointed out that the Government's record on PRU based settlements was much better than the Opposition's, as Conservatives had negotiated four of the five settlements based on pay research in the last ten years.

Terence Higgins rose early to ask whether the absence of a predetermined cash limit in the future meant that the civil servants were to be a special case, or whether other groups - nurses, teachers, national industry employees - would get the same treatment. Mr. Hayhoe simply repeated the terms of the undertaking offered by Lord Soames in relation to 1982. A little later, Peter Emery rose to support the thrust of the Inquiry, but asked for a straight answer to Terence Higgins' question. Mr. Hayhoe once again merely read the terms of the undertaking.

/Most of the



Most of the other interventions simply echoed points already raised in the course of the dispute. But Michael English asked how the Chairman could be expected to bring a fresh approach to these issues when he himself benefited from an inflation-proof pension with a fifteen-year accrual rate, which was much better than that available to any civil servant. And Teddy Taylor, no doubt with his Southend constituents in mind, wanted the Minister to consider an arbitration element in the 1982 arrangements. Mr. Hayhoe said that now was not the time to consider this for 1982. There would be genuine negotiations which the Government trusted would lead to a settlement. Arbitration was neither ruled out nor in. At the end, Bob Cryer described the Inquiry as a plot to hoodwink people over the present dispute. He described it as a new Clegg, introduced because the civil servants, like the miners, believed that only industrial muscle would move this Government, unless you were lucky enough to be an MP with an 18 per cent pay-off.

Mr. Hayhoe did not have an opportunity to hint at reconsideration of the operative date for the 1981 settlement. But I understand that Lord Soames did touch on this in supplementaries to the statement in the Lords.

MA

29 June 1981



STATEMENT BY THE LORD PRESIDENT: 29 JUNE 1981

### INQUIRY INTO CIVIL SERVICE PAY

In the Statement which I made to the House about the Civil Service dispute on 8 June I explained that our talks with the Civil Service Unions had concerned both this year's pay increase, and the future arrangements for determining Civil Service pay. I made clear that the Government was satisfied that it would not be right to increase our 7% offer for the 1981 settlement; but that in response to the Unions' anxieties about the future we had told them that we were ready to set up an independent outside inquiry to advise on the best up-to-date arrangements.

I want to emphasise our concern to establish new and acceptable pay arrangements as soon as practicable. To this end the Government has appointed the Rt Hon Sir John Megaw, a retired Lord Justice of Appeal, as Chairman of an Inquiry into non-industrial Civil Service pay. Membership of the Inquiry is being discussed with Sir John Megaw and will be announced later. The Inquiry will have the following terms of reference:-

"Having regard to the public interest in the recruitment and maintenance of an efficient and fairly remunerated Civil Service, and in the orderly conduct of the business

/of Government



of Government and its services to the public; to the need for the Government to reconcile its responsibilities for the control of public expenditure and its responsibilities as an employer; to the need for good industrial relations in the Civil Service; and to recent experience of operating the existing arrangements for determining the pay of the non-industrial Civil Service: to consider and make recommendations on the principles and the system by which the remuneration of the non-industrial Civil Service should be determined, taking account of other conditions of service and other matters related to pay, including management, structure, recruitment and grading."

I have already given the unions an assurance of our commitment to genuine negotiations in 1982 in advance of the fixing of cash limits. We will ask the Inquiry to report by next summer, so that the recommendations can be considered in good time before the 1983 Civil Service pay settlement.

/ The terms



The terms of reference for the Inquiry take account of earlier discussions with the Unions. They have been widely drawn to allow full consideration, without impediment, of all questions relevant to the determination of Civil Service pay. It is my earnest hope that the Service will see this as opening the way to a constructive and honourable resolution of the important longer term issues underlying the present dispute.

The setting up of this independent inquiry underlines in the clearest possible way the Government's concern to establish a fair and sound basis for the future determination of Civil Service pay. The public has a right to expect the Civil Service unions to respond now equally constructively by bringing their disruptive action to an end. I hope they will do so without further delay.



MR INGHAM

29 June 1981

cc \ Mr Whitmore ✓  
Mr Vereker

*T. H. N.*  
*To Mr*  
*H. J.*  
*300'*

CIVIL SERVICE DISPUTE - BACKDATING

1. A response (slightly delayed by the Employment Debate and PPB drafting) to your note of 23 June.
2. It is not really possible to be for or against any particular course of action as long as there is confusion about the objectives.
3. Our earlier papers suggested what those objectives might be, in the absence of any explicit statement of objectives emanating from E.
4. In the light of those objectives, we suggested that selective back-dating would be quite wrong in principle and practice. Soames said to me after the E discussion that it was very difficult to know who was right and that some of his own people at CSD thought that the Policy Unit's position was the correct one.
5. There is no way to be certain. All I am pressing for, as always, is absolute clarity about our objectives; and some much harder thinking about what would actually happen if we took a certain course of action. Your note raises these very questions but does not answer them:
  - (a) You imply that our objective should be to bring the dispute to a halt as quickly as possible. This may be right, but is it in fact our objective? If so, at what cost? Could we not have done this by offering  $\frac{1}{2}\%$  or 1% more a few weeks ago? Suppose our objective was to force the moderates to speak up and make their influence felt (so that the threatened withdrawal of backdating would not in fact happen)?
  - (b) You say that such a suggestion would be "a red rag to that half of the Civil Service bull which has had no touch with the dispute". But if it had no contact with the dispute, why did it vote for it? What is wrong with visiting upon it the consequences - with plenty of opportunity to avoid those consequences if it makes its voice heard against the dispute just as it originally voted for it?



# CONFIDENTIAL

- (c) Would such action in fact put new steam into the dispute? If most civil servants had little to do with the dispute in the first place, why should they suddenly be provoked into militancy now? Would they not instead be provoked into a less passive form of moderation?
- (d) We have agreed in principle that we should be ready to lay people off without pay. Would this have a similar provocative effect?
- (e) Even if these things do have a provocative effect, are we absolutely certain that they are not necessary steps towards a larger objective - to make sure that the moderate majority prevent this sort of disruption in 1982?
- (f) What would "putting new steam into the dispute" really mean? Does a dispute which has so far appeared unwinnable become winnable? Do a whole lot of moderate union members start taking action? Because they suddenly take the view that the prospects of the strike being successful are enhanced? Or simply out of sympathy with the disruptive minority? How much more could they do and what would it cost them or their union strike funds?
6. I'm not suggesting that our proposals or analysis are necessarily right. I'm simply saying that, in the absence of any clear objectives or any real attempt to think the thing through, it is not possible to make a judgment about what the right course of action should be.
7. I therefore think that your instant rejection of uniform withdrawal of backdating is quite mistaken. However, it may turn out that we should be trying to bring the dispute to a close for ~~quite~~ a quite different reason: the reason being that the dispute is not, in fact, winnable by the Government at all. <sup>Suppose, for example,</sup> ~~the only~~ the only reason that the Government can go on playing it long is that a small minority of civil servants (how many?, how distributed between different Departments etc?) are working like heroes to keep the whole thing going; that this small minority cannot keep this up for long; that they cannot be singled out for special unofficial rewards when the whole thing is over; and therefore might "flip" and pull out if they thought they were going to lose their backdating. If that is the case, then the original analysis of the situation and the judgment that the Government could afford to

by the unions

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# CONFIDENTIAL

sit on its hands, play it long etc, may have been fundamentally wrong. But, once again, this was not properly spelt out or thought through.

8. Apologies for this rather long minute, but the more time one spends thinking about this dispute - and we have spent quite a bit of time - the longer the list of questions becomes. CSD would have done much better to have addressed themselves to these questions rather than working on a complicated, fragile and, it seems, almost unworkable system of selective backdating; a classic case of designing complicated solutions to problems which have not yet been defined.

JOHN HOSKYNS

CONFIDENTIAL





B/C Mr Pattison  
Mr Vereker

R H

10 DOWNING STREET

29 June 1981

From the Private Secretary

*Dear Jim,*

Civil Service Pay Inquiry: Parliamentary  
Statement

The Prime Minister has considered the draft statement which you enclosed with your letter of 26 June. She has the following comments:-

- (i) Page 2, line 12. The Prime Minister would like the first part of the sentence beginning "It is unlikely ..." to be deleted, because it could give the impression that the inquiry might be able to advise on the 1982 pay settlement. The sentence should, therefore, read - "We will ask the inquiry to report by next summer ..."
- (ii) Page 2, line 22. The Prime Minister would like the sentence beginning "The Inquiry will be presided over ..." deleted. If necessary, this should be used for supplementaries.
- (iii) The Prime Minister would prefer the last sentence of the draft to be deleted altogether. The question of Government escalation, including reconsideration of the operative date, should in her view be covered in answer to a supplementary question - no doubt you can arrange for an appropriate one to be asked.

As to whether deferment of the operative date should be selective or universal, the Prime Minister thinks this should be kept deliberately vague at this stage. If pressed, she suggests that the Lord President (and Press Officers) should answer on the following lines:-

"Obviously it would be preferable not to penalise those who have not taken industrial action but have continued to work normally, or even harder than usual, during this period. On the other hand it could be very difficult administratively to pay the increase from different dates for different individuals. This is something that has not been decided, and I hope very much that the question need never arise."

/I



I am sending copies of this letter to the Private Secretaries to the Members of Cabinet, Jim Nursaw (Attorney General's Office), Mrs Duncan (Lord Advocate's Office) and David Wright (Cabinet Office).

*Mr. M.*

*Tim Laker.*

~~Jim Buckley, Esq  
Lord President's Office~~

*MW*



PERSONAL  
APPOINTMENTS IN CONFIDENCE



(A)

Treasury Chambers, Parliament Street, SW1P 3AG Inquiry. ~~They~~  
01-233 3000

29 June 1981

Prime Minister A 2

Further views from  
the Chancellor on  
membership of the

~~have been~~

Tim Lankester, Esq.,  
Private Secretary,  
10, Downing Street

11

30/6

Dear Tim,

The Chancellor thought it might be useful to record his views about the membership of the Civil Service Pay Enquiry.

U He thinks it particularly important that there should be one or two iconoclasts and potential writers on the "right" side; and we should, so far as possible, incline away from people biased towards the established CSD ethos.

These considerations lead him to favour Mr. Ramsay particularly in the managers/business category; he thinks it vital that there should be an "Ackers" on the team; and if Miss O'Cathain is not available, his preference would be for Stella Fisher. Among economists he would want to have one of Tom Wilson, Dennis Lees, Sam Brittain, Arthur Seldon, and Alan Day; he regards Christopher Foster and Ian Davison (a further name - he is managing partner of Arthur Andersen - I have mentioned to the Lord President's office) as alternatives; and he would favour Lord rather than Berrill.

| In response to a question from the Lord President's office, I indicated those of the names most favoured by the Chancellor, but I did not enlarge on the reasoning set out above.

Yours

John

A.J. WIGGINS

PERSONAL  
APPOINTMENTS IN CONFIDENCE



4

SECRET  
+ Personal

Sir Robert Armstrong *RA*

May we please have a word?

MR. WHITMORE

CABINET OFFICE  
A 4024  
26 JUN 1981  
FILING INSTRUCTIONS  
FILE No. ....

*AMW*  
26 vi

Civil Service Industrial Action

It is becoming increasingly clear that the unions' success in raising money, relative to their payments to strikers, is likely to be the principal factor in determining how long the industrial action in the Civil Service lasts. It is therefore important for those concerned with reacting to the dispute, and particularly in the context of deciding whether and if so how to change the operative date, to have as accurate an assessment as possible of the unions' financial position. At present, information coming into the CSD is partial, anecdotal and insufficient as a base for decision making. Are there any other channels through which you could discreetly arrange for information on union finances to be made available to us?

*↓*

Mr. Whitmore intends to have a word with you about this on the way to Luxembourg,

*JM*

26 June, 1981.

SECRET



CONFIDENTIAL

MR. INGHAM

c.c. Mr. Lankester  
Mr. Duguid

Civil Service Inquiry

You will recall that the Prime Minister was asking this morning whether the inquiry could not proceed at a much faster pace than planned, and perhaps complete its work in time for the 1982 pay settlement or at least so as to provide an interim report. I think I convinced her that this would be wrong, but I strongly suspect that the question of an interim report for 1982 will recur in the next few days, as the media focusses on the arrangements for the inquiry.

The arguments against reporting in time for the 1982 settlement:

- (i) The timing would be very difficult: although it might seem at first sight as if, since we are still in the throes of the 1981 settlement, we have a year to run before we need to worry about 1982, in fact of course negotiations for the 1982 settlement will begin in the mid autumn - you will recall that the Government has agreed to enter negotiations without a predetermined cash limit, so presumably negotiations will start around November - and any recommendations from the inquiry team would need to be considered by Ministers over a period of weeks. So there isn't time anyway.
- (ii) We don't want the inquiry to be distracted from its main task of establishing a new long-term pay determination system by short-term considerations of how we deal with the admittedly awkward problem of next year's settlement. The two issues are entirely separate, and there is no logic in addressing them in the same way.
- (iii) To allow the inquiry to make recommendations for 1982 would be to contradict the sense of the Government's refusal to commit itself to arbitration for next year.

CONFIDENTIAL

/ The



The Government's position is that both sides will negotiate the 1982 settlement, but that the Government will have the last word, although it does not rule out the possibility of arbitration; it is certainly not in a position to hand over the outcome of the 1982 settlement to an outside body. (Of course, the real problem is that a recommendation to the inquiry team is unlikely to be reconcilable with what the Treasury have in mind for the pay factor in the cash limit.)

TU.

26 June, 1981.



CONFIDENTIAL

PRIME MINISTER

c.c. Mr. Ingham  
Mr. Duguid

Civil Service Industrial Dispute: Latest Developments

There are one or two developments - on the whole, rather unhelpful - of which you should be aware.

The Public Service Pensions Computer

Mr. Pym explained to you this morning that the operators of his computer in Crawley are now on strike, as a result of which the payment of public sector pensions is interrupted. The payment task is too substantial to be undertaken manually, but the unions have undertaken to deal manually with hardship cases. Newspaper advertisements on Monday will invite written applications in such cases, and either Mr. Pym or Mr. Hayhoe will make himself available to the media to explain what is going on.

Inland Revenue

It is becoming clear that the Inland Revenue Staff Federation is now concentrating its industrial action on the collection service; increasing numbers of collectors in charge of local offices are now either on strike or have been subject to TRD, and as a result well over half the collection offices are not sending in revenue. However, the major payers are still operating the special arrangements. The Treasury will have a new assessment available at the beginning of next week of the effect of all this on receipts.

Civil Aviation Authority

Disruption by the Air Traffic Controllers continues, and there is now some anecdotal evidence of a reduction in tourist receipts, as potential overseas visitors read stories about the likelihood of their flights being subject to delay or cancellation. This seems to be hitting Scotland in particular, where the overseas bed occupancy rate is down from 7% to 3%, although the appalling summer may partly be to blame.

CONFIDENTIAL

/ The



CONFIDENTIAL

- 2 -

The next meeting of the unions is on 2 July, when they will decide what to do next in the light of the success of their fund raising operation.

J.

26 June, 1981.

CONFIDENTIAL



CONFIDENTIAL



TL has seen  
1/7.

CIVIL SERVICE DEPARTMENT  
WHITEHALL LONDON SW1A 2AZ  
Telephone 01 273 5400

*Sir Ian Bancroft G.C.B.  
Head of the Home Civil Service*

Tim Lankester Esq  
10 Downing Street  
LONDON SW1

26 June 1981

*Dear Sir,*

#### INDUSTRIAL ACTION PROGRESS REPORT

4953 staff are currently involved in selective industrial action. The principal departments affected remain the same, with the addition earlier this week of the FCO (Headquarters) where 7 photoprinters have been called out. This and other new developments are set out below by Department and a table showing total numbers on strike is attached.

...

British Telecom have written to the Department of Industry about an estimated £1M which because of industrial action is outstanding on Government telephone bills, and the cut-off stage has been reached. They are not seeking to cut-off Government Departments' telephones but are asking that either a returnable deposit should be paid or that interest should accompany the eventual payments. The Department of Industry and the Treasury are dealing with this matter.

#### ACTION WITHIN DEPARTMENTS

##### FCO

7 Photoprinters in the Communications Operations Department were called out on indefinite strike on Wednesday. This action will interrupt distribution of telegrams, both internally and within Whitehall; however, action copies will be distributed; there is unlikely to be any significant disruption to the working of Government.

##### CAA

Heathrow Airport has been the main target this week, with flights disrupted today and on Wednesday by Air Traffic Controllers' action. The Chairman of British Airways has announced estimated losses of £40 million due to the disruption of services at airports.

CONFIDENTIAL



CUSTOMS AND EXCISE

Striking staff at Dover are expected to return to work as from next Monday.

PAYMASTER GENERAL'S OFFICE

A total of 43 staff are on strike; this includes 12 Finance staff, 3 telephonists and the entire computer operations staff of 28. The strike by computer operators will seriously affect the payments to 1 million public service pensioners. Emergency arrangements will be promulgated in the media generally on Monday. The unions have undertaken to cooperate with manual payments in cases of hardship.

SCOTTISH OFFICE

120 staff are today being asked to write girocheques for teachers' pensions and other payments manually because the computer is out. It is not yet known how many will comply, but management is making clear that there will be immediate TRD action against those who do not do so.

ORDNANCE SURVEY

On Wednesday a contractor's van was surrounded by 2-300 staff when an attempt was made to pick up mail from the site. This was therefore unsuccessful, but an 'out of hours' collection of a large consignment of maps were successful yesterday evening. This will help to meet current orders.

DHSS

Local Offices have been forced to close by short-term protest action at Basildon (yesterday for one hour) and Chesterfield (all day today).

Copies as before.

*Yours ever,  
Jeremy*

JEREMY COLMAN  
Private Secretary



SELECTIVE ACTION BY NON-INDUSTRIAL CIVIL SERVANTS

SUMMARY OF POSITION - 26 JUNE 1951

Department	Number on strike	Remarks
Customs & Excise	434	Strikes by computer, customs and other staff at Southend Computer Centre (308); Dover/Folkestone/Sheerness (82); upon-Tyne (1); Manchester Betting Duty Office (43). Newcastle-
Ministry of Defence	952	Strikes by computer and other staff at 4 dockyards, 4 RN stores depots, 2 RN armaments depots, Clyde Submarine Base, Royal Ordnance Factories, Feltham and Taunton (Mapping), Bath, Oil Fuel Depots.
Environment/Transport	69	Senior Data Processors at DVLC.
Foreign and Commonwealth Office	315	Passport Examiners at the London, Liverpool, Peterborough, Newport and Glasgow Passport Offices; staff at Hayes Record Centre; <i>Photoprints (Telegrams Section)</i>
Dept. of Health and Social Security	458	230 staff on strike at Newcastle computer centre; 10 staff at North Fylde central Accounts Office; staff at Reading Computer Centre (59) Livingston Computer Centre (56), and Washington Computer Centre (100). <i>Medicine Division DMS HQ (3)</i>
Home Office		
Inland Revenue	2170	Staff on strike at Shipley and Cumbernauld computer centres; staff at various Collection Offices. <i>(393 TAB)</i>
Paymaster General's Office	43	Strike by computer staff; <i>affecting pension payments</i> 12 in Finance Branch, disrupting Government banking transactions; telephonists.
Property Services Agency	44	Strikes by maintenance engineers at RAF Brawdy, Pendine, Aberporth, St Athans, Treow, Cardiff DWO, Cumbernauld and Carlisle. <i>Shoeburyness</i>



Departments	Number on strike	Remarks
Depts. of Trade and Industry	163	Strike by staff who handle search facilities at Companies House, London and Cardiff; telephonists at Cardiff
Scottish Office	25	Staff at the Scottish Computer Centre and 1 CPISA member involved in organising industrial action.
Scottish Courts Administration	235	Strike by staff at Edinburgh and Glasgow Sheriff Courts.
Registers of Scotland	11	Strike by Administrative staff.
STAFF	18	Staff at Guildford Computer Centre.
Employment	8	Computer staff at Reading.
Ordnance Survey	8	8 Reprographic staff.
TOTAL	4953	





Ref. A05173

MR. PATTISON

Civil Service Pay Inquiry: Parliamentary Statement

I have seen the letter which Mr. Buckley sent to you today, and the draft statement on the inquiry into Civil Service pay.

2. On a point of detail, I suggest the deletion of the sentence: "The inquiry will be presided over by a distinguished retired Lord Justice of Appeal, whose independence and impartiality cannot be in doubt". The very use of the last phrase suggests that there could be a doubt, and I think that the whole sentence would be better deleted. ~~legis.~~

So do  
I  
not.

3. As to the sentence in square brackets at the end of the draft, I should recall that, when this matter was considered by Ministers collectively on 17th June, it was agreed that any reference to moving the settlement date from 1st April should be in the most guarded terms. It was suggested that it might be made in reply to a Supplementary Question rather than in the body of the statement. I think that the terms suggested are guarded enough; but I wonder whether the sentence would be best kept for use in reply to supplementaries (an appropriate Supplementary Question could no doubt be stimulated).

I should  
refer not  
to include  
it in the  
statement itself

4. The Lord President may be asked in supplementaries, or one of the Press Officers may be asked, whether deferment of the operative date would be selective or universal. Ministers have not decided that, and I suggest that the right course would be to leave the matter deliberately vague, on the following lines: "Obviously it would be preferable not to penalise those who have not taken industrial action but have continued to work normally, or even harder than usual, during this period. On the other hand it could be very difficult administratively to pay the increase from different dates for different individuals. This is something that has not been decided, and I hope very much that the question need never arise".

✓

5. I am sending copies of this minute to Mr. Wiggins and Mr. Buckley.

RTA

ROBERT ARMSTRONG

26th June, 1981





Civil Service Department  
Whitehall London SW1A 2AZ  
01-273 4400

From the Private Secretary

*Prime Minister*

Mike Pattison  
10 Downing Street

26 June 1981

*See my comments  
on text, and  
Sir Robert's advice  
at Flag A.*

*I agree with  
R.A.'s remarks  
not*

*Dear Mike,*

CIVIL SERVICE PAY INQUIRY: PARLIAMENTARY  
STATEMENT

*20/6*

... I attach a copy of the statement which the Lord President proposes to make in the House of Lords on Monday. The intention is that our Minister of State should repeat it in the Commons.

I am sending copies of the statement to the Private Secretaries to other members of Cabinet, to Jim Nursaw (Attorney General's Office), Mrs Duncan (Lord Advocate's Office) and to David Wright (Sir Robert Armstrong's Office).

*Yours sincerely,  
Jim Buckley.*

J BUCKLEY



DRAFT STATEMENT

INQUIRY INTO CIVIL SERVICE PAY

In the Statement which I made to the House about the Civil Service dispute on 8 June I explained that our talks with the Civil Service Unions had concerned both this year's pay increase, and the future arrangements for determining Civil Service pay. I made clear that the Government was satisfied that it would not be right to increase our 7% offer for the 1981 settlement; but that in response to the Unions' anxieties about the future we had told them that we were ready to set up an independent outside inquiry to advise on the best up-to-date arrangements.

I want to emphasise our concern to establish new and acceptable pay arrangements as soon as practicable. To this end the Government has appointed the Rt Hon Sir John Megaw, as Chairman of ~~an~~<sup>the</sup> Inquiry into non-industrial Civil Service pay. Membership of the Inquiry is being discussed with Sir John Megaw and will be announced later. The Inquiry will have the following terms of reference:-

"Having regard to the public interest in the recruitment and maintenance of an efficient and fairly remunerated Civil Service, and in the orderly conduct of the business of Government and its services to the public; to the need for the Government to reconcile its responsibilities for the control of public expenditure and its responsibilities as an employer; to the need for good industrial relations



in the Civil Service; and to recent experience of operating the existing arrangements for determining the pay of the non-industrial Civil Service:

to consider and make recommendations on the principles and the system by which the remuneration of the non-industrial Civil Service should be determined, taking account of other conditions of service and other matters related to pay, including management, structure, recruitment and grading."

I have already given the unions an assurance of our commitment to genuine negotiations in 1982 in advance of the fixing of cash limits. [It is unlikely that the Inquiry will be able to advise on arrangements in time for the 1982 pay settlement, but] We will ask <sup>the Inquiry to</sup> for a report by next summer, so that the recommendations can be considered in good time before the 1983 Civil Service pay settlement

we suggest the square-bracketed piece should come out - since it might give the impression that pay in 1982 could be settled by the Inquiry.

Agree? Yes  
No

The terms of reference for the Inquiry take account of earlier discussions with the Unions. They have been widely drawn to allow full consideration, without impediment, of all questions relevant to the determination of Civil Service pay. The Inquiry will be presided over by a distinguished retired Lord Justice of Appeal.

~~whose independence and impartiality cannot be in doubt.~~ It is my earnest hope that the Service will see this as opening the way to a constructive and honourable resolution of the important longer term

Surely this is so, ~~despite the~~



issues underlying the present dispute.

The setting up of this independent inquiry underlines in the clearest possible way the Government's concern to establish a fair and sound basis for the future determination of Civil Service pay. The public has a right to expect the Civil Service unions to respond now equally constructively by bringing their disruptive action to an end. I hope they will do so without further delay. [If it continues the Government will have to consider what further response it should make, [including reconsideration of the operative date of the present pay offer].

Ld. Soames has not yet decided whether to include this last sentence, but he may probably want it in. Robert Armstrong (Flag A) suggests it ~~should~~ <sup>might</sup> be kept for use in reply [supplementaries]. We think it should be in, though <sup>perhaps</sup> without the last bit in square brackets. That <sup>could be</sup> ~~could be~~ <sup>sent</sup> ~~sent~~ <sup>in</sup> ~~in~~ <sup>supplementaries</sup>. <sup>if you just leave it - it could be combined</sup> ~~if you just leave it - it could be combined~~ <sup>as an</sup> ~~as an~~ <sup>insert</sup> ~~insert <sup>in</sup> ~~in~~ <sup>supplementaries</sup>. <sup>first release</sup> ~~first release~~ <sup>in</sup> ~~in~~ <sup>supplementaries</sup>.~~

On the question of making deferral of the operative date selective or universal, I think we should keep the options open. Robert has suggested a form of words (see his party).  
Content ? R.



*Civil Service  
Pay*



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

26 June 1981

*✓ R. I. Tolkien*

Jim Buckley, Esq.,  
Private Secretary to the  
Lord President of the Council

*R*

*25/6*

*Dear Jim,*

CIVIL SERVICE REDUNDANCY STATISTICS

You wrote on 8 June about redundancy statistics.

The Chancellor is not persuaded that it would be useful to set up a working party as proposed by the Lord President. He believes that the figures already to hand are sufficient to demonstrate that the non-industrial Civil Service enjoys a relatively high level of job security. In this connection he is clear that the right comparison is with the generality of the community and not with other occupations in a similarly favoured position.

It was clear from the Lord President's letter of 29 May that both CSD and Department of Employment officials had found it difficult to make much progress in improving the statistics. This difficulty would not be removed by associating the Treasury with the work, and the outcome could well be a lengthy exercise which in the end would add little to present knowledge.

Finally, any such work could well be overtaken if the proposed independent enquiry on Civil Service pay looks closely at the question of relative job security.

I am copying this letter to Tim Lankester at No.10

*Yours sincerely,*

*Richard Tolkien*

R.I. TOLKIEN  
Private Secretary



BF ON FRIDAY 3 JULY

MFJ

*Fate*

26 June 1981

*Mr CROSSLEY*

I enclose resignation letters from three members of the PRU Board. Could we have a word please about whether the Prime Minister should reply to these letters.

TPL

Jim Buckley Esq  
Civil Service Department

*R/S*





Caxton House Tothill Street London SW1H 9NA

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

Switchboard 01-213 3000

Rt Hon Sir Geoffrey Howe QC MP  
Chancellor of the Exchequer  
Treasury  
Great George Street  
LONDON SW1

*R  
M/C*

26 June 1981

*Ma Cropper*

LONDON WEIGHTING INDICES

Thank you for your letter of 19 June in response to my Private Secretary's letter of 15 June about London Weighting Indices.

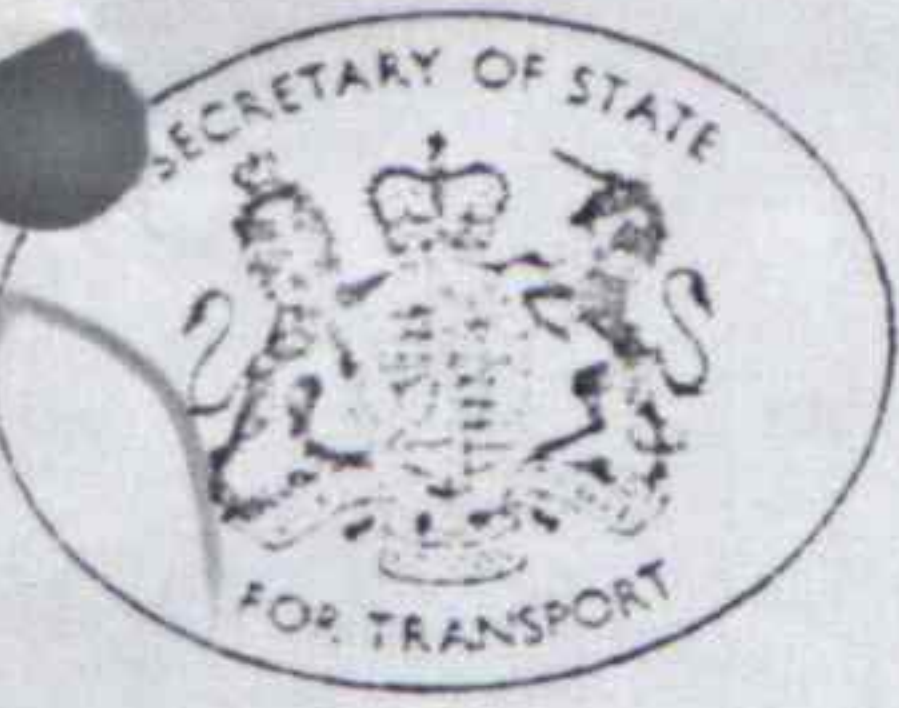
I understand your view that publication of these indices is inconsistent with our attempts to weaken the links between price rises and pay increases. There is of course a range of considerations concerning these indices and these will need to be assessed before a decision is taken about continued publication. As you suggest the best course is for me to put a paper to E(PSP) and I will aim to do so in the Autumn so that a decision can be taken well before next June. Accordingly I have asked my officials to prepare a paper in consultation with officials in the Treasury, and the Civil Service Department. In the first instance this will go to PSP(O).

I am copying this letter to members of E Committee and to Sir Robert Armstrong.

*G  
H  
M*



elo  
C. J. Verelst  
S. Dwyer



C. J. Verelst  
S. Dwyer

DEPARTMENT OF TRANSPORT  
2 MARSHAM STREET LONDON SW1P 3EB

The Rt Hon Lord Mackay of Clashfern PC QC  
Lord Advocate  
Lord Advocate's Department  
Fielden House  
10 Great College Street  
LONDON  
SW1

26 June 1981

*[Handwritten signature]*

*[Handwritten initials and date]*

FIRST APPLICATIONS FOR PROVISIONAL DRIVING LICENCES.

I have been thinking further about your suggestion that until the Transport Bill receives Royal Assent and we can make the necessary regulations, you could give a direction to the police and prosecutors in Scotland to ensure that no prosecutions of first time applicants took place.

This is very much in the spirit of our proposals, and I have been exploring the implications to see if we could proceed as you suggest. But as I indicated in my letter of 8 June, there are difficulties which I am afraid seem to rule out any public announcement.

*will require if required*

First, as you know, policy on prosecutions in England lies entirely in the hands of the police. We could, of course, draw their attention to any initiative you might take in Scotland; but although I am quite sure they would not act unreasonably, we could not guarantee immunity from prosecution



in England. We would want to give maximum publicity to any interim measures if they are to be effective. But a government statement guaranteeing immunity for unlicensed drivers in Scotland but not in England could I think be embarrassing.

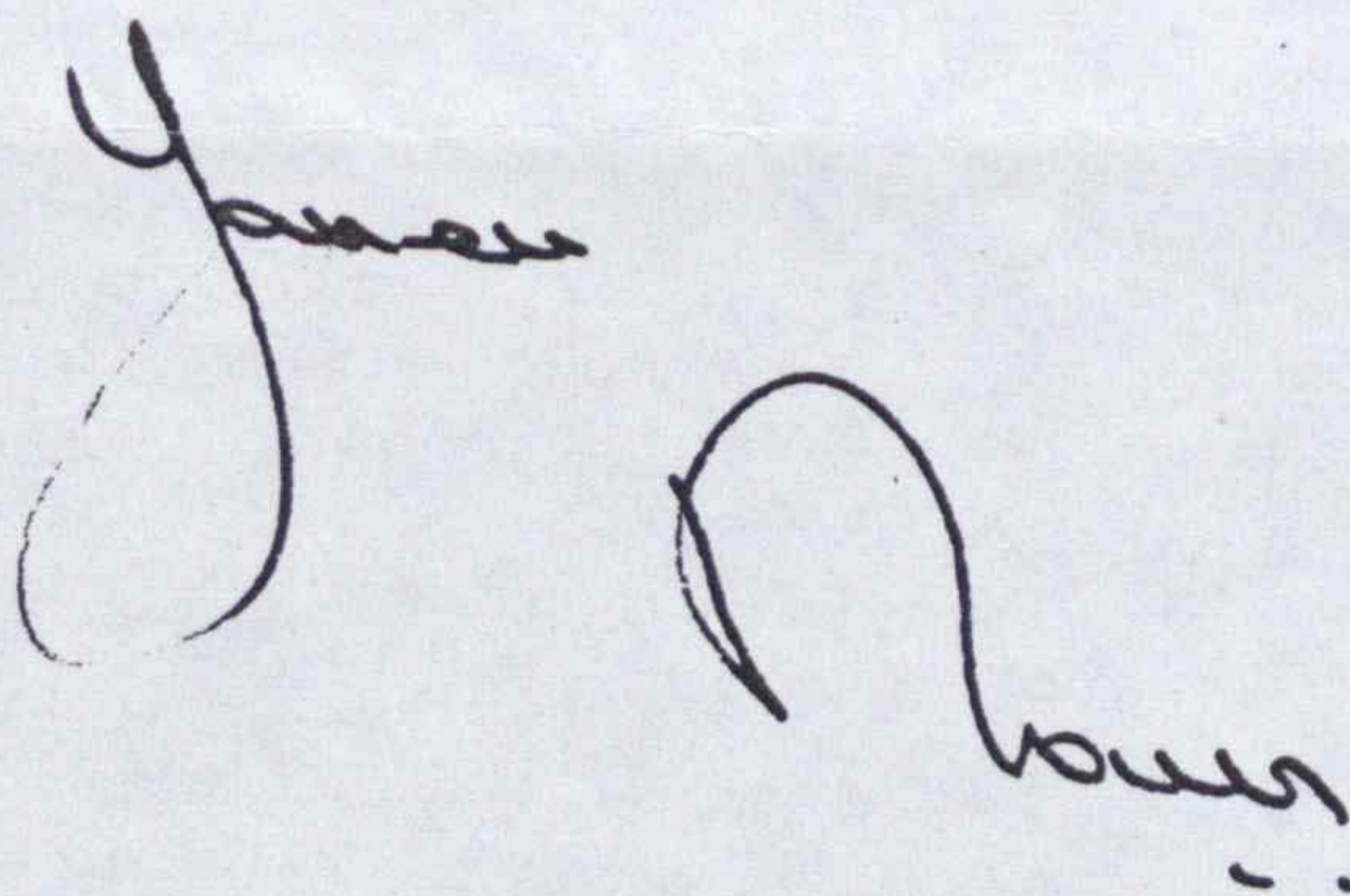
One way round this problem might be to introduce a further clause at Report Stage in the Lords prohibiting convictions for licensing or insurance offences committed before the regulations came into operation. We would of course need the views of colleagues and of the Attorney General before attempting to include such a clause. But my own feeling is that apart from what I suspect would be considerable technical difficulties in the drafting, it would raise rather worrying issues of principle. There can by now be few first time applicants in any doubt that driving without a licence is illegal, and it must therefore be questionable whether retrospective immunity is really appropriate - and if it is, how long a period of retrospection.

There is also a problem over insurance. The insurers have indicated that they take a very sympathetic view of our present proposals and are working on ways of providing cover as soon as the regulations are made. But the indications are that the market would be much more dubious about providing cover in the interim period.

We hope to get Royal Assent and regulations into operation within six weeks. It is well known we are doing our best for those affected. In the circumstances my instincts are to leave matters along for the intervening period and rely on the good sense of police and prosecutors.



I am copying this letter to Willie Whitelaw, the Attorney-General and to the other recipients of my letter of 3 June.

A handwritten signature in black ink, appearing to read 'Norman Fowler'. The signature is written in a cursive style with a large initial 'N' and a long, sweeping underline.

NORMAN FOWLER



**Alcan Aluminium (UK) Limited**

A member of the Alcan group of companies



Registered Office: Alcan House, 30 Berkeley Square, London W1X 6DP  
Telephone: 01-493 1618 Telex: 261911 Cable: Alcanlon London

*etc Jim Buckley CSD*  
*C/F PPS.*

The Rt Hon Margaret Thatcher MP,  
Prime Minister and Minister for the Civil Service,  
No.10 Downing Street,  
LONDON. SW1.

25 June 1981

Dear Prime Minister, *pn* *(29/6)*

I refer to your letter dated 10 June to Lord Shepherd P.C. concerning the work of the Board of the Civil Service Pay Research Unit and to his subsequent letter to you of the 24 June.

As an industrial member of the Board currently struggling to achieve a 5% pay settlement in one of my own companies, I can fully understand the position taken by the Government with regard to Civil Service pay and the action that has been taken. However, as you are well aware, a by-product of this action has meant that the need for the Civil Service Pay Research Board has disappeared. Having lived for many years through a series of industrial disputes, I believe that the Civil Service and the country has been fortunate in having a system which has kept the Civil Service out of this kind of battle. I am aware that comparability has not answered the question posed as well in a recessionary period as it has during periods of full employment and relatively modest inflation. It is therefore obvious that some other system must be devised which will keep the Civil Service out of the kind of battle which takes place regularly within industry.

Given the fact that the role of the Pay Board has disappeared and that the search for something to replace it is taking place, I feel that it is necessary for each of us to play our part by helping clear the decks for future action and I am therefore tendering my resignation from my position as a Board Member.

I should like to thank you for appointing me to this Board, albeit in a particularly difficult time.

Please be assured that should you need any further assistance in this area I will be very pleased to help.

*Yours sincerely*  
*George Russell*  
George Russell

:AB



R30/b

c.c. Jim Buckley esd

THE GLEBE HOUSE  
HOWNAM BY KELSO  
ROXBURGHSHIRE TD5 8AL  
SCOTLAND  
MOREBATTLE (057-34) 277

25th June 1981.

Dear Prime Minister

I am writing to ask you  
to accept my resignation from the  
Civil Service Pay Research Unit Board  
with effect from 26th June

I am very sorry that  
present circumstances have led  
my colleagues & myself to the



conclusion that there is no useful  
purpose to be served by the Board  
remaining in being.

I am sure that there is  
now an opportunity to establish a  
new system of setting civil service  
pay, a system which could also  
be of immense value right across  
the board in wage & salary  
settlements. In this context I believe



THE GLEBE HOUSE  
HOWNAM BY KELSO  
ROXBURGHSHIRE TD5 8AL  
SCOTLAND

MOREBATTLE (057-34) 277

that integrity, independence & unique  
width of experience of the Far  
Research Unit would be invaluable

I would like to place on  
record my very great appreciation  
for the efficiency & dedicated work  
of the Unit's Director Vernon Morgan  
and the members of his staff, and



also for the wise & effective leadership  
of the Board's Chairman Lord Shepherd.

It has been a great privilege to  
work with them, and I hope that  
opportunities will be found to take  
full advantage of the knowledge &  
understanding that they have  
acquired

Yours ever

Pike





Civil Service Department  
Whitehall London SW1A 2AZ  
01-273 4400

From the Private Secretary

25 June 1981

Willie Rickett  
10 Downing Street

*Dear Willie,*

PAY RESEARCH UNIT BOARD AND PAY INQUIRY

We had a word last night and again this morning about Lord Shepherd's letters to the Prime Minister and the Lord President. I now attach a draft which the Lord President suggests the Prime Minister should send to Lord Shepherd this afternoon. The letter does not raise any objection to Lord Shepherd publishing his letter to the Prime Minister, but perhaps you will want to make it clear in a covering note that the Prime Minister will be publishing her letter at the same time. (I have asked our Press Officer to get in touch with yours to see what needs to be arranged).

Now that the Chairmanship of the Inquiry has been settled it has been agreed that the Lord President will make an oral statement in the Lords on Monday afternoon (at 1500 immediately after Questions) and that statement will be repeated in the Commons by our Minister of State, Mr Barney Hayhoe, MP. I will circulate later today what the Lord President intends to say.

I am sending a copy of this to John Wiggins (Treasury), Richard Dykes (Employment) and David Wright (Cabinet Office).

*Yours sincerely,  
Jim Buckley.*

J BUCKLEY



DRAFT LETTER FOR SIGNATURE BY THE PRIME MINISTER

The Rt Hon Lord Shepherd  
Chairman  
Civil Service Pay Research Unit Board  
67 Tufton Street  
LONDON SW1P 3QS

Thank you for your letter of 24 June tendering your resignation as Chairman of the Civil Service Pay Research Unit Board. I quite understand that you should see this as an inevitable consequence of the Government's decision to withdraw from the present Civil Service Pay Agreements and to run down the staff of the Pay Research Unit.

2. As you know, the Government has decided to arrange for an independent inquiry to make recommendations on future arrangements for determining Civil Service pay. The present system has lost public confidence and a thoroughgoing review is now required. We shall be making an announcement about the inquiry next Monday.

3. In your letter you refer to the role of comparability. The Government <sup>agrees that</sup> ~~believes~~ <sup>have a part to play</sup> ~~comparisons with outside pay must~~ ~~evidently be one factor~~ in establishing Civil Service pay rates; <sup>as you will know from my letter of 12 August 1980 to which you referred,</sup> ~~But~~ there are many other factors <sup>such as job security,</sup> ~~which need~~ <sup>which need to be taken into account</sup> ~~consideration as well,~~ <sup>was glad to see that</sup> ~~something which I noted your Board~~ <sup>this</sup> recognised in its recent Report.

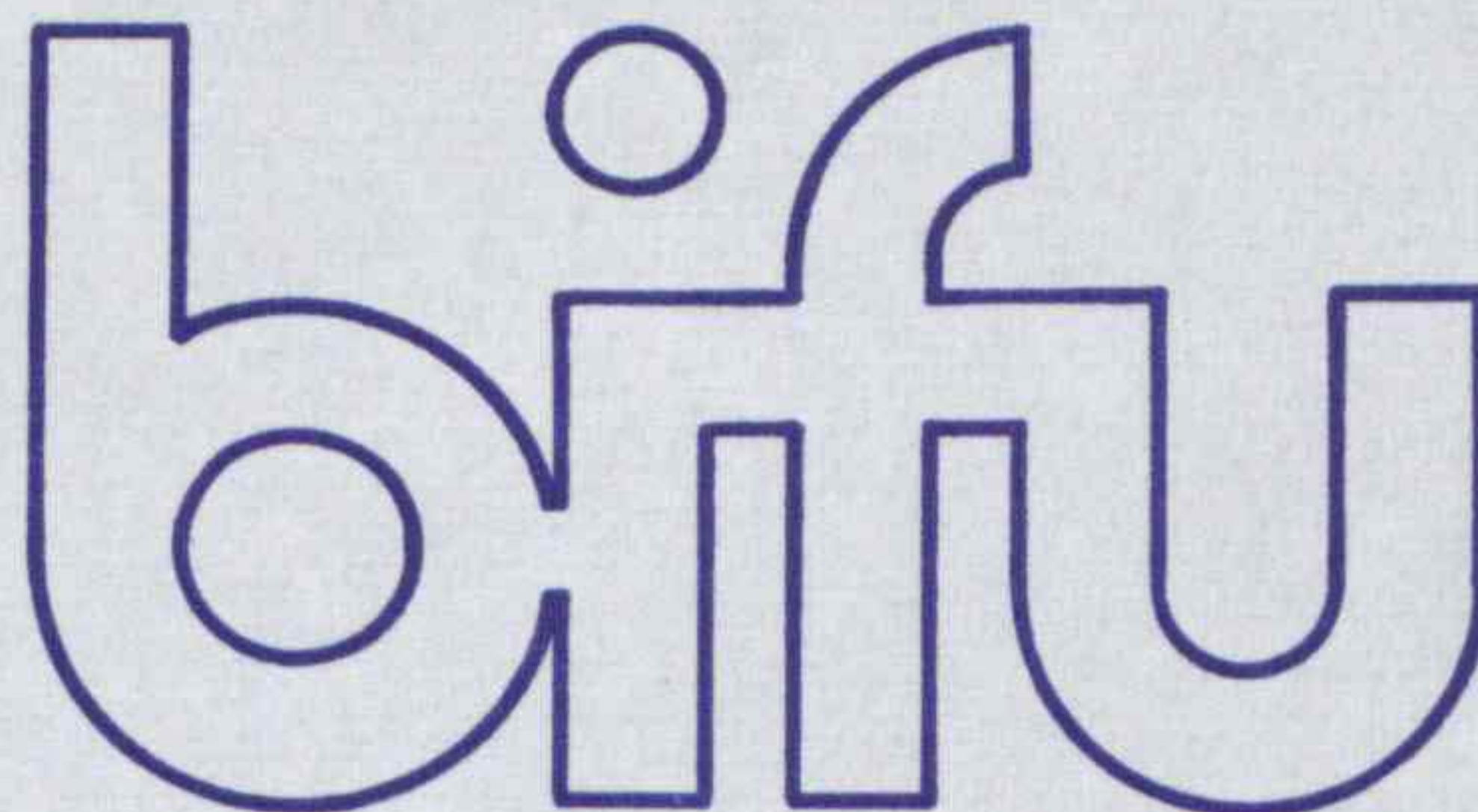


4. We shall need to decide, when we have the inquiry's report, what institutional arrangements may be appropriate as part of the new system. It would not have been right for us to continue expenditure on the Pay Research Unit during the intervening period. The Government has already made it clear that it does not see any role for the Unit to play in relation to negotiations for a Civil Service pay settlement in 1982.

5. Finally, may I repeat from my earlier letter my thanks to you and to other members of your Board for their work over the years of the Board's existence.



Registered Office:  
Sheffield House  
17 Hillside  
Wimbledon  
London SW19 4NL  
Tel: 01-946 9151



**Banking Insurance & Finance Union**  
General Secretary: Leif Mills

Your reference

Our reference LAM/EF

Date 25th June 1981

The Rt Hon Mrs M Thatcher  
The Prime Minister  
10 Downing Street  
London SW1

*Dear Mrs. Thatcher,*

*R26*

Civil Service Pay Research Unit Board

I am writing to resign my membership of the Civil Service Pay Research Unit Board. I understand that the Chairman and the other independent members of the Board are doing the same.

I have enjoyed my service on the Board over the last 3½ years and in the course of this service have greatly appreciated both the professionalism and expertise of the Pay Research Unit and indeed have nothing but praise for the way in which the Director and the staff of the Unit have discharged their duties.

It is a pity that the Pay Research Unit is apparently being disbanded and I feel sure that some fact-finding body is essential to provide information on which the pay of the non-industrial civil service can be based. I note, however, that the Civil Service Department gave six months notice of withdrawal from the pay research system earlier this month although I regret that apparently such notice was not directly given to the Director of the Unit and his staff. I take it, however, that the Government have decided that the Unit should be wound up and therefore clearly the Board has no function and it is for that reason I tender my resignation.

I hope that it is possible for the PRU staff to be treated as fairly as possible when they are redeployed within the civil service.

Yours sincerely,

*Leif Mills*

LEIF MILLS  
General Secretary





FROM  
R. E. HOLLAND  
CHIEF GENERAL MANAGER

PEARL ASSURANCE COMPANY LIMITED

252 HIGH HOLBORN, LONDON, WC1V 7EB

25th June, 1981.

The Rt. Hon. Margaret Thatcher, MP.,  
Prime Minister and Minister for the Civil Service,  
No. 10 Downing Street,  
London, SW1.

*Feb*

Dear Prime Minister,

Some fifteen months ago you appointed me as a member of the Civil Service Pay Research Unit Board. Since that time developments in respect of Civil Service salary negotiations have meant that, to say the least, the role of the Board has been somewhat negative!

At the Board meeting yesterday we discussed the current situation as we know it from correspondence between Lord Soames and our Chairman, Lord Shepherd, and from press comments, and concluded that it was appropriate that the independent members of the Board should now resign. I therefore ask you to accept my resignation from the Board as from 1st July, but in doing so I would also like to associate myself with the remarks in Lord Shepherd's letter to you (which I have seen). In particular I remain firmly convinced that there is a role for pay research in the determination of Civil Service pay - albeit that the current system requires modification - and that this role cannot be fulfilled by any other means. May I add that in my limited experience of the pay research unit I believe that the Director and his staff have done an excellent job within their terms of reference.

Yours sincerely,

*R. E. Holland*



K26

20 Beech Grove,  
Harrogate.  
HG2 0EX  
Harrogate 65957

The Rt Hon Margaret Thatcher MP,  
Prime Minister and Minister for  
the Civil Service  
No 10 Downing Street  
London SW1

25 June 1981

*Dear Prime Minister,*

At a meeting of the Civil Service Pay Research Unit Board yesterday, the Government's view was noted that the existing Pay Agreements no longer command public confidence. Since this effectively precluded any useful role for the Board, the members agreed to send their resignations to you. I accordingly wish to resign with effect from 1 July 1981.

In doing so, I should like to record my professional appreciation of the high technical competence of the Directors of the Pay Research Unit and his staff. May I also say that I should be very happy to put my own interest and experience in the field of pay research at your disposal in any way which you might consider useful in the future.

*Yours sincerely,*

*J. R. Crossley*

J R Crossley





MANAGEMENT IN CONFIDENCE

cc J. Verker  
A Duguid

Civil Service Department  
Whitehall London SW1A 2AZ  
01-273 4400

From the Private Secretary

Richard Dykes Esq  
Principal Private Secretary to the  
Secretary of State for Employment  
Caxton House  
Tothill Street  
LONDON SW1H 9NA

*Handwritten initials*

25 June 1981

*Dear Richard,*

LONDON WEIGHTING ALLOWANCES: 1981 UPDATING

Thank you for your letter of 15 June.

2. The offer made to the non-industrial Civil Service unions is for an increase in 7% of all elements in the pay bill for 1981/82, including London Weighting. The cost of increasing London Weighting allowances by the full amount indicated by the indices to be published in your Department's Gazette on 25 June would add an additional 0.16% to the value of the present pay offer. But in order to be consistent with the refusal of any increase in this offer we intend to limit the increase in London Weighting payments to 7%.
3. The Lord President hopes that, so far as lies in their power, his colleagues will ensure that a similarly strict approach is applied to London Weighting payments by other public sector employers and in particular in the public services where the most direct comparisons may be drawn. If there are plans to increase London Weighting by the full amount justified by the indices the Lord President thinks that these proposals should first be put to colleagues generally.
4. I am copying this letter to the recipients of yours and also to the Private Secretaries to the Secretaries of State for Education and Social Services.

*Yours sincerely,  
Jim Buckley.*

J BUCKLEY

MANAGEMENT IN CONFIDENCE



CONFIDENTIAL

PRIME MINISTER

PAY RESEARCH UNIT BOARD

We heard earlier this evening that the Pay Research Unit Board will announce its collective resignation at 2300 tomorrow night (Thursday); and the attached letter from Lord Shepherd, asking you to accept his resignation with effect from 26 June, has just arrived.

This is not entirely unexpected. The background is that Lord Soames had made it clear to Lord Shepherd and his colleagues some time ago that they were unlikely to be needed after the Pay Research Unit itself had been wound down; it has been known for some time that Lord Shepherd wanted to go out on his own terms, rather than be wound up. The attached article in today's Financial Times speculates about this, but the more likely reason for the decision being made today is that the Board met this morning.

Although Lord Shepherd apparently told the CSD earlier today that he intended his resignation letter to be helpful, and although he has covered it with a personal letter to you asking whether you have any objection to it, there is no doubt that the general tone will be unhelpful in bringing the current dispute to an end. Willie Rickett has therefore sent a copy this evening to the Lord President's Office, asking them for a draft reply, which you might wish to consider giving to the press at the same time as Lord Shepherd publishes his; it

/may be



may be necessary to find time to have a word with Lord Soames about this tomorrow morning. The CSD's initial view, which we share, is that there is nothing to be gained in asking Lord Shepherd to change the terms of his resignation letter.

The two problems that arise from his letter are these:

(i) He refers to the proposals you yourself put forward last August. I attach a copy of your letter to him of 12 August (Flag A), which encloses suggested improvements to the pay research system. The statement that we wish to reinforce the independence and integrity of the pay research system might be held against us in the light of subsequent events; and if he refers publicly to these proposals, we shall be asked what they were.

(ii) Although we have always said that there will be a place for comparability in the new pay determination system, the emphasis given to it in Lord Shepherd's letter will enable the unions to claim that the PRU Board's resignation gives legitimacy to the unions' claim that the Government is being unfair in abandoning the principle of fair comparison. And the fact that the Pay Research Unit's report will also be published on 26 June will be equally unhelpful.

Apart from a well-judged reply to Lord Shepherd, therefore, I think we need also to be able to respond to the winding up

/of pay research



CONFIDENTIAL

- 3 -

of pay research and the resignation of the Board by as early an announcement as possible of the establishment of the long-term inquiry. This development therefore adds urgency to the search for a Chairman. If we get stuck on that, I think we should consider seriously showing some movement by announcing the terms of reference, and our intention to appoint a Chairman shortly.

J.

24 June 1981



DEPARTMENTAL NOTICE

~~Mr. Blusson~~

L.

25/6/81

EFFECT OF INDUSTRIAL ACTION ON FCO COMMUNICATIONS.

1. The highly specialised photoprinting section of the Communications Centre has been called out and normal copying of FCO telegrams, both in and out, has stopped.
2. We think FCO lead departments should be getting at least one advance copy each of all inward telegrams: we are returning drafts of outward telegrams as quickly as possible to the originating departments.
3. In addition, a limited advance copy service is working at present: we hope that one copy is reaching each FCO department with an interest in the subject (deduced from the normal distribution lists); and one copy is being sent to other Whitehall departments. We are in touch with ~~our~~ Communications Centres and hope that further copying and distribution will be undertaken by them.
4. The movement of GPO mail into and out of the FCO is inhibited by picket lines. Small and easily portable items of inter-departmental correspondence are, however, getting through.
5. Bag services are not being seriously held up at the FCO but will probably be affected by Air Traffic Controllers' industrial action at London Airport. Departments should be aware that correspondence made by bag may be delayed.
6. Lead departments should bear in mind the need to keep senior officers and Private Offices informed.
7. Queries on bag services to Mr Romeril (233.4011); queries on telegrams and telegram distribution to Mr Jarman (233.4023).

Communications Operations Department

24 June 1981



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GRS 91  
UNCLASSIFIED

FM FCO 231700Z JUN 81

TO IMMEDIATE ABIDJAN AND IMMEDIATE TO ALL POSTS.

TELEGRAM NUMBER 78 OF 23 JUNE

FCO COMMUNICATIONS: INDUSTRIAL ACTION

1. A STRIKE IN A SECTION OF THE DISTRIBUTION MACHINERY WILL PROBABLY STOP THE AUTOMATIC DISTRIBUTION OF ALL INCOMING AND OUTGOING FCO TELEGRAMS WITH EFFECT FROM 2000 GMT 23 JUNE. ONE ADVANCE COPY OF EACH TELEGRAM SENT AND RECEIVED FROM THE LONDON SIGNALS CENTRE WILL BE GIVEN TO THE RELEVANT FCO DEPARTMENT WHO WILL BE ASKED TO INFORM OTHER INTERESTED DEPARTMENTS.
2. PLEASE KEEP TRAFFIC TO A MINIMUM.
3. EMBASSIES AND HIGH COMMISSIONS PLEASE INFORM SUBORDINATE POSTS CARRINGTON

NNNN  
DIST  
FCO/WHI  
COD

UNCLASSIFIED



DEPARTMENTAL NOTICE

TELEGRAM DISTRIBUTIONS

With effect from 2000 GMT on 23 June, industrial action in the photocopying section of COD is likely to interrupt all FCO telegram distribution.

One Advance Copy of each incoming and outgoing telegram will be sent to the lead FCO Departments for the subject concerned. They should take whatever steps they can to inform other interested departments including such Private Offices as they think essential.

Communications Operations Department

23 June 1981



**CONFIDENTIAL**

MR LANKESTER

cc:- Mr Duguid

CIVIL SERVICE PAY INQUIRY

I think it is important that, as soon as a chairman is found for the proposed inquiry and the announcement has been made, the Government lose no time in preparing its own evidence. I am concerned that unless we take an initiative from here, little or no progress will have been made on this before the August holidays, and that the Chancellor's and the Prime Minister's travel arrangements, together with the Party Conference, may make it difficult to agree the evidence early in the autumn.

As you know, the raw material for Ministerial decisions is contained in the report of the MISC 54 official group. That report, which has not yet been considered by Ministers, proposes three possible pay determination systems. I would judge that it is likely to be rather difficult for Ministers to agree on which one to propose to the inquiry, since there are fundamental differences of approach between the CSD and the Treasury. It may, therefore, need more than one discussion among Ministers, after which the evidence itself will have to be drafted and agreed.

I think it would be helpful, if you think the Prime Minister would agree, if you wrote to the Lord President's Private Secretary saying that we want to get on with this, and that if the Lord President has no objection you will be asking the Secretary to the Cabinet to put the MISC 54 report on the agenda of an early meeting of E.

*J.*

24 June, 1981

**CONFIDENTIAL**





CIVIL SERVICE PAY RESEARCH UNIT BOARD  
67, Tufton Street, LONDON, SW1P 3QS  
Telephone: 01-212

CHAIRMAN  
The Rt Hon Lord Shepherd P.C.

24. 6. 81.

Dear Prime Minister

Unless you have any objection  
it would be my wish to make  
public the enclosed letter of  
resignation at the same time  
as I issue the press statement  
prior to the publication of the  
Annual Report on the 26<sup>th</sup> JUNE.

Yours sincerely,

Hal Shepherd





CIVIL SERVICE PAY RESEARCH UNIT BOARD  
67, Tufton Street, LONDON, SW1P 3QS  
Telephone: 01-212 7779

CHAIRMAN

24 June 1981

The Rt Hon Lord Shepherd P.C.

The Rt Hon Margaret Thatcher MP  
Prime Minister and Minister for  
the Civil Service  
No 10 Downing Street  
London SW1

*Margaret Thatcher*

Thank you for your letter of 10 June. I appreciate your kind remarks, as do my Board members to whom I have conveyed your thanks for the valuable role they have performed in overseeing the work of the Pay Research Unit.

At a Board meeting today we considered the present situation and the Government's notice of withdrawal from the Civil Service Pay Agreements. Some doubts were raised over the timing of the termination of this notice and the effect on the operations of the Unit. The Board however concluded that the Government's intention to end the current pay research arrangements was clear, that it would therefore be inappropriate to continue the Unit's activities. In all the circumstances the Board's conclusion was that there was no point in our continued existence. I therefore ask you to accept my resignation as Chairman of the Board with effect from the 26 June the day on which our third, and now final, annual report is to be published.

I very much regret that the necessity for this step has arisen. I believe an opportunity was lost of creating a new system, which would have commanded public credibility, on the basis of the proposals which you yourself put forward in August last. With these proposals in mind I am sure that a new system for settling civil service pay could have been established reasonably quickly by utilising the experience of the independent Board members, and recognising that we had identified the weaknesses in the present system and had formed views on their rectification.

I, like the rest of my Board, remain convinced that comparability must be a factor in settling civil service pay. As the provision of relevant facts will therefore be necessary it is of considerable concern to us that as a consequence of the latest turn of events in the current dispute the unique and extensive experience of the Pay Research Unit is to be lost.

The Board have always emphasised, but believe it is not even now fully understood, the difference between the pay research system, and the Unit's role within this system. There are defects in the system, but the Unit, which assesses comparability and ascertains the facts and nothing more, has been in our view unfairly associated with these defects. The Unit has no responsibility for the evaluation, interpretation, and use of its data but within its sphere of operations it has earned the confidence of the independent members of the Board.



Not only that, the Unit commands considerable respect from all those with direct knowledge of its work both in this country and overseas. The Unit is a valuable asset of the pay scene in this country.

I believe it essential that these views be conveyed to you, and I also want to assure you that I, and my independent colleagues, remain willing to use our experience of pay research in any way which you might consider to be helpful to you and the Government.

SHEPHERD

*of*  
*Shepherd*  
*Hal P. Shepherd*



CONFIDENTIAL

MR. HOSKYNS

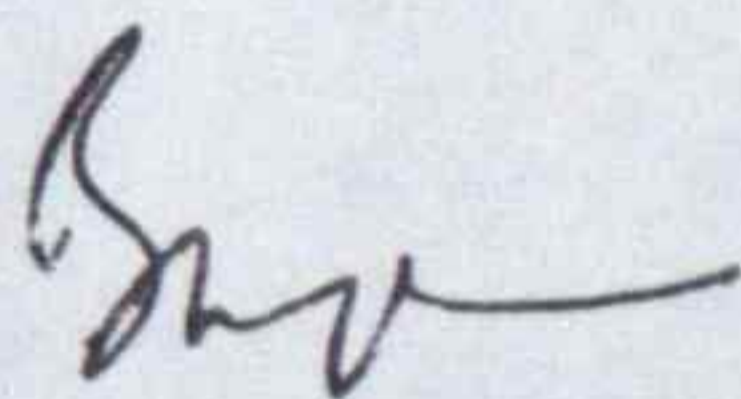
cc. Mr. Whitmore  
Mr. Vereker

*hw*  
*25m*

CS Dispute - Backdating

For what it is worth, I am totally against the idea that we should even imply consideration of a loss of backdating for everyone. That would just be a red rag to that half of the Civil Service bull which has had no touch with the dispute. It would put new steam into a dispute which is stuttering to a humiliating halt.

By all means withhold pay from strikers but the rest should be left to their abject failure.



B. INGHAM

23 June, 1981

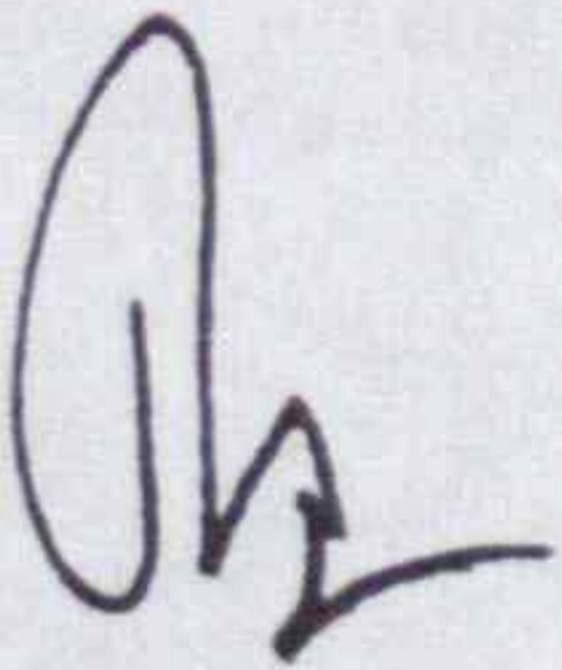
CONFIDENTIAL



PRIME MINISTER

CIVIL SERVICE DISPUTE: NEXT STEPS

1. E agreed last week that the Lord President should announce the Inquiry this week and use the statement for a little sabre rattling about the possibility that the Government would feel unable to back-date the increase to 1 April.
2. Although we would have preferred to see it made clear that this measure, if adopted, would apply to everyone, not just strikers, this was not agreed. Instead, it was agreed that this would be left unclear.
3. Since the statement will be unclear, alert journalists will immediately seek clarification on this point from CSD press officers and from Bernard Ingham. I hope we can agree that Bernard and others should say that the loss of backdating for everyone is under consideration, though there has been no decision to do this. Unless we spell out this option, in off-the-record briefing, we shall not achieve the effect that E intended. And we think it quite likely that, in the absence of any guidance, CSD will give the impression that withholding backdated payments would only apply to the minority who are actually striking.
4. We think it is very important that the sabre rattling should make the moderate majority stop and think that they might have something to lose from continued action. So far, the action has been cost-free.

Y1  
X |  


JOHN HOSKYNS



CONFIDENTIAL



✓ Mr Dwyer  
Mr Veecher

Prin hanti

2

CIVIL SERVICE DEPARTMENT  
WHITEHALL LONDON SW1A 2AZ  
Telephone 01 273 5400

Sir Ian Bancroft G.C.B.  
Head of the Home Civil Service

Tim Lankester Esq  
10 Downing Street  
LONDON SW1

12  
24/6

23 June 1981

Dear Tim,

INDUSTRIAL ACTION PROGRESS REPORT

4952 staff are currently involved in selective industrial action. The principal departments affected are as previously reported. Significant new developments are, as usual, shown below by Department and a table showing total numbers on strike is attached.

...

ACTION WITHIN DEPARTMENTS

PAYMASTER GENERAL'S OFFICE

200 -  
250,000

A further 12 computer staff are on strike, which will affect the payment of some ~~150,000~~ public sector pensions per week. Contingency arrangements are being urgently considered.

SCOTTISH OFFICE

Following the breakdown last week of the agreement with the Trade Union Side which had been keeping certain essential computer services going, management are investigating alternative means by which these services can be provided manually. Teachers' superannuation, payments to farmers and Scottish Office staff salaries are the three main areas involved.

INLAND REVENUE

The rolling programme of TRD action against Collectors-in-Chief refusing to provide returns of work to central management continues. In addition, in some cases where the Collector-in-Chief of an office has been TRD'd, action is now being taken against their subordinates where they too have refused cooperation. Manchester, the West Midlands and the Eastern counties are among the areas most affected at the moment, but actual numbers involved this week are not yet available.

CONFIDENTIAL



Yesterday 9 staff at the Development Land Tax Office in Middlesborough were given first TRD notices for blacking work. All are now working normally.

## EMPLOYMENT/DHSS

The three benefit computers at Washington, Livingston and Reading are still out, but the backlog of work on manual benefit payments which had occurred at some offices in Scotland due to unofficial strike action has now almost been cleared.

Department of Employment staff at Coventry and Leeds are now refusing to work on fresh claims but it is hoped that intervention by CPSA officials will rectify the position.

## ORDNANCE SURVEY

Mail deliveries are being maintained by the use of a private contractor. This has led to "blacking" action by messengerial grades and TRD action will be taken if staff persist in their refusal to work normally.

## ECGD

Picketing action at Llanishen is affecting the despatch of mail to policy-holders. Counter measures will be introduced if the balance of advantage which presently lies with management, slips away.

Copies as before.

*Yours ever,  
Jeremy*

JEREMY COLMAN  
Private Secretary



SELECTIVE ACTION BY NON-INDUSTRIAL CIVIL SERVANTS  
SUMMARY OF POSITION -23 JUNE 1981

Department	Number on strike	Remarks
Customs & Excise	435	Strikes by computer, customs and other staff at Southend Computer Centre (308); Dover/Folkestone/Sheerness (83); upon-Tyne (1); Manchester Betting Duty Office (43).
Ministry of Defence	1014	Strikes by computer and other staff at 4 dockyards, 4 RN stores depots, 2 RN armaments depots, Clyde Submarine Base, Royal Ordnance Factories, Feltham and Taunton (Mapping), Bath, Oil Fuel Depots.
Environment/Transport	69	Senior Data Processors at DVLC.
Foreign and Commonwealth Office	312	Passport Examiners at the London, Liverpool, Peterborough, Newport and Glasgow Passport Offices; staff at Hayes Record Centre
Dept. of Health and Social Security	455	230 staff on strike at Newcastle computer centre; 10 staff at North Fylde central Accounts Office; staff at Reading Computer Centre (59) Livingston Computer Centre (56), and Washington Computer Centre (100).
Home Office		
Inland Revenue	2116	Staff on strike at Shipley and Cumbernauld computer centres; staff at various Collection Offices.
Paymaster General's Office	39	Strike by 12 computer staff; 12 in Finance Branch, disrupting Government banking transactions; telephonists and strike by 12 staff affecting pension payments
Property Services Agency	44	Strikes by maintenance engineers at RAF Brawdy, Pendine, Aberporth, St Athans, Treow, Cardiff DWO, Cumbernauld and Carlisle. Shoburyness, Z



Departments	Number on strike	Remarks
Depts. of Trade and Industry	163	Strike by staff who handle search facilities at Companies House, London and Cardiff; telephonists at Cardiff
Scottish Office	25	Staff at the Scottish Computer Centre and 1 CPSA member involved in organising industrial action.
Scottish Courts Administration	235	Strike by staff at Edinburgh and Glasgow Sheriff Courts.
Registers of Scotland	11	Strike by Administrative staff.
MAFF	18	Staff at Guildford Computer Centre.
Employment	8	Computer staff at Reading.
Ordnance Survey	8	8 Reprographic staff.
TOTAL	4952	



22 June 1981

Policy Unit

PRIME MINISTER

CIVIL SERVICE DISPUTE: NEXT STEPS

1. E agreed last week that the Lord President should announce the Inquiry this week and use the statement for a little sabre rattling about the possibility that the Government would feel unable to back-date the increase to 1 April.
2. Although we would have preferred to see it made clear that this measure, if adopted, would apply to everyone, not just strikers, this was not agreed. Instead, it was agreed that this would be left unclear.
3. Since the statement will be unclear, alert journalists will immediately seek clarification on this point from CSD press officers and from Bernard Ingham. I hope we can agree that Bernard and others should say that the loss of backdating for everyone is under consideration, though there has been no decision to do this. Unless we spell out this option, in off-the-record briefing, we shall not achieve the effect that E intended. And we think it quite likely that, in the absence of any guidance, CSD will give the impression that withholding backdated payments would only apply to the minority who are actually striking.
4. We think it is very important that the sabre rattling should make the moderate majority stop and think that they might have something to lose from continued action. So far, the action has been cost-free.

JOHN HOSKYNS

Do you agree with this?  
 If so, we will have to  
 ensure that CSD take the  
 same line: I can do that.

As the ~~decision~~ <sup>statement</sup>  
 can't be made before Thursday

we can clear the line with Christ. <sup>DL</sup>  
 not ... 24/6



at J. Venches  
A. Dwyer

Civil Service Pay

We ought to have an OPM member on it.



PRIME MINISTER

Harold Lever

would be good

Prime Minister  
Following your conversation with Lord Soames, he approached Sir John Megaw - who has agreed to do the job. The ~~other~~ other members will be chosen in consultation with him, but as you happy with Lord Soames' favourites (marked by asterisk)?

CIVIL SERVICE PAY DISPUTE

Following the decision that we should not invite a serving judge to chair the Civil Service pay inquiry, I saw Sir Alastair Pilkington and pressed him on your behalf to take it on. He took it away to ponder on it over the week-end, but alas he has now told me that he simply hasn't the time to do it justice. I attach a further list of possible candidates for the Chairmanship. The first three are arranged in my order of preference.

R  
23/6

We need to reach an early decision on the Chairmanship. If you agree with my order of preference, I will approach them in turn. I gather there is a chance that Edwin Plowden might be willing to take on something new.

As to membership, I attach a revised list which takes account of comments and suggestions from the Secretary of State for Scotland, and from Sir Derek Rayner. I have marked with an asterisk those names which I personally favour. Final decisions on membership would be taken in consultation with the Chairman.

I am sending copies of this minute, and attachments, to the Ministers who attended your last meeting (the Chancellor of the Exchequer, and the Employment Secretary), and, for information, because I have suggested a former judge as a candidate for the Chairmanship, to the Lord Chancellor.

S.

→ spoke to Bowden (S&D).

R  
24/6

SOAMES

22 June 1981



PAY INQUIRY: CHAIRMEN

Lord Plowden  
Rt Hon Sir John Megaw  
Sir Donald Barron

(74)  
(71)  
(60)

Former Lord Justice of Appeal  
Former Chairman Rowntree Mackintosh

Lord Franks  
Sir Hector Laing

(76)  
(57)

Chairman United Biscuits

Sir Douglas Morpeth  
Sir Humphrey Prideaux

(57)  
(65)

Senior partner Touche Ross & Co  
Former Chairman of Brooke Bond Liebig



PAY INQUIRY: POSSIBLE MEMBERS

Managers/Business

Tom Risk  
David Bruce  
Spencer Crookenden  
Robert Ramsay\*  
Ien Peach  
George Russell\*  
Gordon Bayley  
Ronald Peet  
[Boots nominee]  
[Littlwoods nominee]

(68)  
(54)  
(62)  
(59)  
(c55)  
(46)  
(60)  
(55)

Governor Bank of Scotland  
Deloitte, Haskins & Sells  
Chairman K Shoes  
Ford  
IBM  
Alcan UK, Member of PRUB  
Chief Executive, National Provident Institution  
Chief Executive, Legal and General Group  
The Lord President has written to the two Chairmen

Small Business

James Ackers\*

(c40)

Garage Proprietor, member of the Association of British Chambers of Commerce

Women

Miss Elizabeth Carnegie of Lour  
Lady Seear\*

(56)  
(67)

Scottish local government  
Longstanding member of TSRB, Former Reader in Personnel Management, ISE

Margery Hurst  
Stella Fisher  
Detta O'Gathain\*  
Daisy Hyams

(68)  
(43)  
(68)

Founder of Brook Street Bureau  
Founder of Stella Fisher Bureau  
Tesco

Economists

Prof Tom Johnston\*  
Prof Donald Mackay  
Prof Tom Wilson  
Prof Christopher Foster\*

(54)  
(44)  
(64)  
(50)

Principal-lect, Heriot-Watt University  
Professor of Economics, Heriot-Watt University  
Glasgow University  
Coopers & Lybrand Associates

Trade Unions

Gavin Laird\*  
James Baldwin  
David Warburton\*  
John Chalmers

(48)  
(56)  
(39)  
(66)

AUEW (Member of Executive Council)  
AUEW (Constructional Section)  
GMMU (National Industrial Officer)  
General Secretary, Boilermakers' Union



Ex-Civil Service

✓ Sir Kenneth Berrill \*  
✓ Alan Lord \*  
Lord Groham

(60)  
(52)  
(63)

Chairman Vickers da Costa  
Dunlop  
Adviser to the Governor Bank of England



Ref: A05129



CC

J. Vereker

APPOINTMENTS IN CONFIDENCE

Civil Service

MR. LANKESTER

R  
2/1/6

I have seen the letter which Godfrey Robson of the Scottish Office wrote to you on 16<sup>th</sup> June about membership of the independent inquiry on Civil Service pay.

2. I rather agree with the point in the last paragraph, that it would be in the Government's interest to have some "insider" representation on the inquiry. It could help to provide the Government with a defence against any suggestion that the composition of the inquiry was loaded against the Civil Service, or that it failed to include anybody who knew something about the subject.

3. I do not think that it would be appropriate to put a serving civil servant on the inquiry; but we could think in terms of a retired civil servant. Names that spring to mind are Alan Lord - though he never dealt directly with pay in the Civil Service; Lord Croham; and Lord Hunt of Tanworth. Any of these would bring a degree of experienced "insider" representation into the inquiry; and any of them would take a suitably keen and critical look at the weaknesses of the present system.

RA

Robert Armstrong

22nd June 1981

APPOINTMENTS IN CONFIDENCE



CONFIDENTIAL



CIVIL SERVICE DEPARTMENT

WHITEHALL LONDON SW1A 2AZ

Telephone 01 273 5400

Sir Ian Bancroft G.C.B.  
Head of the Home Civil Service

*Pam Martin*

*in the Verkh  
in Durnin*

*19/6*

Tim Lankester Esq  
10 Downing Street  
LONDON SW1

19 June 1981

*Dear Tim,*

INDUSTRIAL ACTION PROGRESS REPORT

As has been reported in the Press, the CCSU Major Policy Committee decided, after a day of talks yesterday, to press ahead with an extended programme of selective strike action. The only union which, after membership consultations, still favoured an all-out strike was the CPSA, and it deferred to the others in the interests of maintaining unity.

A total of 4962 staff are involved in selective action today. Inland Revenue, MOD, Customs and Excise, DHSS, Employment, MAFF, Trade and Industry, Scottish Courts, DVLC and Passport Offices continue to be seriously affected. In addition, Ordnance Survey has been affected this week as set out below; and action still continues within the CAA. As usual the main developments in departments are set out below, and an Annex setting out total numbers on strike is attached.

ACTION WITHIN DEPARTMENTS

SCOTTISH OFFICE

The trade union side has abandoned the Agreement with management which has been keeping certain essential computer services going. Teachers' superannuation and certain payments to farmers, as well as the pay of Scottish Office staff themselves will be affected. The Scottish Office hope to keep up as many of these payments as possible on a manual basis. The unions claim that their latest move was provoked by management when, some weeks ago, the agreement was inadvertently breached by a delivery of mail. But this is regarded as a thin excuse.

ORDNANCE SURVEY

8 reproduction staff began indefinite strikes this week, leaving 4 machines out of operation. This means that OS are now unable to print certain larger maps. In addition picketing

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has been preventing deliveries of mail. However, smaller multicoloured maps and certain repayment work is being maintained.

## CAA

The London Air Traffic Control Centre has been affected by industrial action both yesterday and today. Today air traffic controlled by the Centre is operating at about 70% of its normal level. Yesterday the corresponding figure was about 33%. Heathrow Airport itself was also affected by action yesterday. However, contrary to some Press reports, a substantial service was maintained.

## INLAND REVENUE

20 Collectors in Charge went on strike yesterday following first TRD action taken against them for failing to submit returns of work to central management. Staff in six Collection Offices walked out for a short time in protest. Approximately 75% of the staff in PD Taxes, Cardiff, walked out on Wednesday afternoon in sympathy with Mr Elsey, the IRSF official whose trial began in Edinburgh the same day.

On a more positive note:

## EMPLOYMENT

A backlog of benefits payments, which accumulated because of unofficial action by staff in Scotland, is likely to be cleared by next week. Staff are reported to be working normally and enthusiastically.

## DHSS

The threat of TRD action to staff at Laurieston (Scotland) has resulted in a resumption of normal working. About 300 staff in six offices (4 in Scotland, 2 in England) were involved in walk-outs on Wednesday 17 June. Normal working has now been resumed.

Additionally several departments, including DVLC, Industry and DHSS, have made successful deliveries of mail and supplies to various sites.

Copies as before

*Yours ever,*  
*Jeremy Colman*

JEREMY COLMAN  
Private Secretary



SELECTIVE ACTION BY NON-INDUSTRIAL CIVIL SERVANTS

SUMMARY OF POSITION - 19 JUNE 1981

Department	Number on strike	Remarks
Customs & Excise	444	Strikes by computer, customs and other staff at Southend Computer Centre ; Dover/Folkestone/Sheerness/Shoreham/Newhaven ; Newcastle-upon-Tyne ; Manchester Betting Duty Office
Ministry of Defence	1024	Strikes by computer and other staff at 4 dockyards, 4 RN stores depots, 2 RN armaments depots, Clyde Submarine Base, Royal Ordnance Factories, Feltham and Taunton (Mapping), Bath, Oil Fuel Depots.
Environment/Transport	69	Senior Data Processors at DVLC.
Foreign and Commonwealth Office	317	Passport Examiners at the London, Liverpool, Peterborough, Newport and Glasgow Passport Offices; staff at Hayes Record Centre
Dept. of Health and Social Security	455	230 staff on strike at Newcastle computer centre; 10 staff at North Fylde central Accounts Office; staff at Reading Computer Centre (59) Livingston Computer Centre (56), and Washington Computer Centre (100).
Home Office		
Inland Revenue	2116	Staff on strike at Shipley and Cumbernauld computer centres; staff at various Collection Offices.
Paymaster General's Office	27	Strike by 12 computer staff; 12 in Finance Branch, disrupting Government banking transactions; telephonists.
Property Services Agency	12	Strikes by maintenance engineers at RAF Brawdy, Perdine, Aberporth, St Athans, Treow, Cardiff DWO, Cumbernauld, Carlisle, Shoeburyness.



Departments	Number on strike	Remarks
Depts. of Trade and Industry	163	Strike/by staff who handle search facilities at Companies House, London and Cardiff; telephonists at Cardiff
Scottish Office	25	Staff at the Scottish Computer Centre and 1 CPSA member involved in organising industrial action.
Scottish Courts Administration	235	Strike by staff at Edinburgh and Glasgow Sheriff Courts.
Registers of Scotland	11	Strike by Administrative staff.
IFF	18	Staff at Guildford Computer Centre.
Employment	8	Computer staff at Reading.
Ordnance Survey	8	3 Reprographic staff.
TOTAL	4962	



SECRET

3

PRIME MINISTER

Civil Service Industrial Action

You may find it helpful to have this note of the main current developments in the Civil Service dispute, following yesterday evening's decision by the unions to continue and intensify their programme of selective action.

The general feeling of employing Departments is that the unions are now wriggling on a hook of their own making, in that they know that further action will not be effective but they are mandated by the membership to continue. The brave words about intensified selective action are unlikely to be matched by developments, since there is little intensification possible; and it is not expected that they will be able to get in the extra contributions for which they have appealed for the strike funds. Indeed, if the union leaders are now looking for a way out, the failure of their appeal for a new levy might provide the opportunity. The extent to which continued action is supported by the TUC will be an important factor to watch. Support is probably drifting away from the unions, and is likely to continue to do so unless some new development renews their militancy.

The pattern of industrial action today is much the same as before, with some indications of rather more effective organisation of their disruption by the air traffic controllers.

You should know that Customs and Excise have secretly arranged for a private computer firm to prepare the necessary paper work for the largest VAT payers, on the basis of data smuggled out of the Southend VAT computer centre. If this operation is successful, it will enable collection of some 75 per cent of VAT due. Before long it will no doubt become public.

/ public

SECRET



SECRET

- 2 -

public knowledge, but C & E are naturally anxious to keep it quiet for as long as possible.

The CSD has been making an assessment of the recovery problems, which should be completed early next week: two features of it of which you may wish to be aware in advance are that the period of recovery is in many cases going to last well into the period of negotiations for the 1982 settlement, with obvious consequences for the next pay round; and that there is one particular potential cost if the dispute drags on, which is the loss of one year's taxation of unemployment benefit, worth some £400 million, because industrial action on the DHSS and Employment computers is endangering the planned starting date of April 1982.

J.

19 June 1981

SECRET





*Crest Sew*

Treasury Chambers, Parliament Street, SW1P 3AG

01-233 3000

19 June 1981

The Rt. Hon. James Prior, M.P.,  
Secretary of State for Employment

*[Handwritten signature]*

LONDON WEIGHTING INDICES

I have seen your Private Secretary's letter of 15 June about the planned publication of the 1981 London Weighting indices on 25 June.

Are we sure that we want to continue publishing these indices? There is always the risk that an erratically high figure will cause unnecessary difficulty for the Government, while we will get little credit when it is correspondingly low. But a more important objection, in my view, is the fact that the purpose of the indices is quite explicitly related to determining an element of pay, and thus fortifies the presumption - which we are seeking to demolish - that price increases should be the decisive influence on pay levels. Our position, of course, would be that it should be determined by ability to pay, and by what is needed to recruit and retain staff.

I recognise that it may now be too late to avoid publication this year. But I think that this is an issue which should be reviewed in time for a decision before the question of publication arises next year. If you agree, perhaps you would be prepared to put a paper to E(PSP).

I am copying this letter to the members of E Committee and to Sir Robert Armstrong.

*[Handwritten signature]*

GEOFFREY HOWE



18 June 1981

MR LANKESTER

*R*

CIVIL SERVICE PAY: INDEPENDENT INQUIRY

Godfrey Robson's letter of 16 June suggests a preferred alternative to Christopher Foster. Foster does know quite a lot about local government - I think he did a major study on it. But the real point is that we should use him as a very bright Trojan Horse - someone who will really understand the fundamental contradictions between cash limits and the whole idea of bargaining, the impossibility of allowing arbitration to effectively break cash limits and so on. We cannot assume, however carefully we put the list together, that there will be more than one or two really clear-minded people on that team. Most of them will be waffling away when the time comes. So don't let's lose Foster.

*JH*

JOHN HOSKYNS

*copy of this to*

*Jan Buckley etc.*

*JH*

*12/6*



010  
Civil Service  
Dyrol  
Wardle

CONFIDENTIAL



Prime Minister

CIVIL SERVICE DEPARTMENT

WHITEHALL LONDON SW1A 2AZ

Telephone 01 273 5400

Sir Ian Bancroft G.C.B.  
Head of the Home Civil Service

12  
17/6

Tim Lankester Esq  
10 Downing Street  
LONDON SW1

17 June 1981

Dear Tim,

INDUSTRIAL ACTION PROGRESS REPORT

The total number of those involved in selective strike action is now 4928, including 16 staff still involved in unofficial action at the Department of Employment (see below).

The principal departments affected remain unchanged: Inland Revenue, MOD, Customs and Excise, DHSS, Employment, MAFF, Trade and Industry, Scottish Courts, DVLC and Passport Offices. Action still continues within the CAA. As usual the main developments in departments are set out below, and an Annex setting out total numbers on strike is attached.

...

The constituent unions of CCSU are still consulting their members about the way forward, prior to a final decision on the matter on Thursday by the Council's Major Policy Committee. The National Executive Committees of 3 of the 4 major unions - the SCPS, CPSA and IRSF favour all out strike action, and early indications were that this course was receiving strong support in membership ballots. However, though the full picture is still by no means available, the position now seems less clear-cut. It is certain that the unions will be faced with a difficult decision on Thursday.

The position varies between unions, within departments and from region to region. All out action appears to be favoured considerably more in the North than in the South.

EMPLOYMENT

Following a meeting between management and CCSU on Tuesday involving the threat of TRD action, all but 16 of the remaining staff taking unofficial action in Scotland returned to work yesterday and are working normally. The remainder are expected to return today. Some Unemployment Benefit Offices have been closed to the public on each of the past three working days to enable efforts to be concentrated on the backlog of work on benefit payments. The 79 staff at Hull, who had been on strike for

CONFIDENTIAL



three days at the end of last week, returned to work on Monday.

DHSS

It is now known that 716 staff from 14 offices were involved in the 'protest' action last Friday in sympathy with the Department of Employment unofficial strikers. 274 staff in the Yorkshire and Humberside area as well as 44 staff in Cambridge also walked out on Friday afternoon. Scotland was again affected yesterday, with offices closed at Glasgow and Paisley due to walkouts by some 200 staff. The pattern of selective action at DHSS continues as before.

ENVIRONMENT/TRANSPORT

Management is considering contingency arrangements to effect another delivery of mail to DVLC Swansea.

MOD

A total of 1015 staff are involved in selective action, the pattern of which is similar to that previously reported. Nine meteorological staff at Manchester Airport were on strike yesterday for 24 hours. 125 staff at RNSD Llangennech were on an unofficial one-day strike yesterday in protest against management taking in mail.

CUSTOMS AND EXCISE

Data processors at London Airport returned to work yesterday. Otherwise the pattern of action continues as before.

INLAND REVENUE

First TRD letters have been sent to 15 Collectors in charge of offices in the North which have, on union instructions, failed to submit returns of work to central management. Further letters will probably need to be sent out on Thursday. Letters are only being sent to Collectors in offices which are known not to be working normally. Although in theory if there is no cooperation this action could result in TRD of all staff in the offices concerned, such an outcome is considered extremely unlikely and newspaper reports of 9000 staff being threatened with TRD action are dismissed as highly exaggerated.

Copies as before.

*Yours truly,*  
*Jeremy Colman*

JEREMY COLMAN  
Private Secretary



SELECTIVE ACTION BY NON-INDUSTRIAL CIVIL SERVANTS

SUMMARY OF POSITION - 16 JUNE 1981

Department	Number on strike	Remarks
Customs & Excise	445	Strikes by computer, customs and other staff at Southend Computer Centre (308); Dover/Folkestone/Sheerness/Shoreham/Newhaven (93); Newcastle-upon-Tyne (1); Manchester Betting Duty Office (43).
Ministry of Defence	1015	Strikes by computer and other staff at 4 dockyards, 4 RN stores depots, 2 RN armaments depots, Clyde Submarine Base, Royal Ordnance Factories, Feltham and Taunton (Mapping), Bath, Oil Fuel Depots.
Environment/Transport	69	Senior Data Processors at DVLC.
Foreign and Commonwealth Office	317	Passport Examiners at the London, Liverpool, Peterborough, Newport and Glasgow Passport Offices; staff at Hayes Record Centre
Dept. of Health and Social Security	455	230 staff on strike at Newcastle computer centre; 10 staff at North Fylde central Accounts Office; staff at Reading Computer Centre (59) Livingston Computer Centre (56), and Washington Computer Centre (100).
Home Office		
Inland Revenue	2076	Staff on strike at Shipley and Cumbernauld computer centres; staff at various Collection Offices. (1737 on strike, 339 TRD)
Paymaster General's Office	27	Strike by 12 computer staff; 12 in Finance Branch, disrupting Government banking transactions; telephonists.
Property Services Agency	41	Strikes by maintenance engineers at RAF Brawdy, Pendine, Aberporth, Z St Athans, Treow, Cardiff DWO, Cumbernauld. Shoeburyness



Departments	Number on strike	Remarks
Depts. of Trade and Industry	163	Strike by staff who handle search facilities at Companies House, London and Cardiff; telephonists at Cardiff
Scottish Office	25	Staff at the Scottish Computer Centre and 1 CPSA member involved in organising industrial action.
Scottish Courts Administration	235	Strike by staff at Edinburgh and Glasgow Sheriff Courts.
Registers of Scotland	11	Strike by Administrative staff.
MAFF	17	Staff at Guildford Computer Centre.
Employment	24	Computer staff at Reading. 16 staff on unofficial strike in Scotland - expected to return to work tomorrow.
Ordnance Survey	8	8 Reprographic staff.
TOTAL	4928	Includes 16 DE staff on unofficial strike





cc J. Henderson  
August

Civil Servant

SCOTTISH OFFICE  
WHITEHALL, LONDON SW1A 2AU

Copied to Murray  
C.O.

T R 19/6

APPOINTMENTS - IN CONFIDENCE

Tim Lankester Esq  
Private Secretary  
No 10 Downing Street  
LONDON SW1

16 June 1981

Dear Tim,

CIVIL SERVICE PAY: INDEPENDENT INQUIRY

Thank you for your letter of 10 June. My Secretary of State was grateful for the opportunity to offer his views on this.

As regards economists, he has doubts about Professor Tom Wilson who is getting on in years, has an ill wife (and so may not be prepared to travel regularly to London), and is not in any case a specialist in pay or labour market economics. Professor Christopher Foster's interests are more on environmental than local government matters. The Secretary of State would much prefer (if he could afford the time) Professor Tom Johnston, the Principal Elect of Heriot-Watt University; and failing him, Professor Donald Mackay, Professor of Economics at Heriot-Watt University, and an independent economic consultant.

Gavin Laird, who is a member of the Executive of the AUEW and a General Council member of the TUC, would be a very suitable Trade Union appointee.

Subject to any views that Lady Howe might have on women appointees, the Secretary of State has suggested Miss Elizabeth Carnegie, who is active in local government in Scotland, and is also the Chairman of the Scottish Committee of the Manpower Services Commission.

The Secretary of State has two suggestions to make from Scottish business - Mr Tom Risk, who is just taking over as Governor of the Bank of Scotland, and is a former Chairman of Standard Life; and Mr David Bruce, a partner in Deloitte Haskins and Sells, and the immediate past President of the Institute of Chartered Accountants of Scotland.

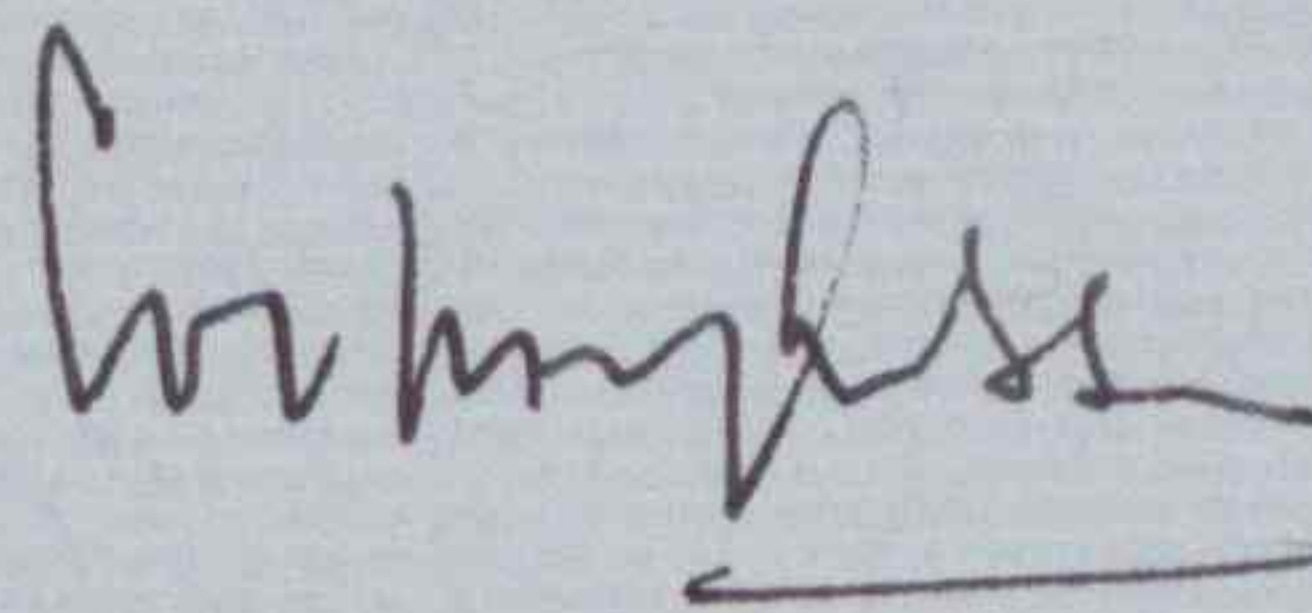
The Secretary of State has asked me to make one general point about the proposed composition of the Inquiry. This is that a Committee on the lines set out in your letter will not reassure those who are to be affected by the outcome. They will expect, and quite reasonably, that at least some members will have a closer knowledge of the system they are investigating, than have any of the people you mention. It might be in the Government's



APPOINTMENTS - IN CONFIDENCE

interest too if it were able to deflect any criticism arising from the results of the Inquiry, by pointing to adequate "insider" representation.

Yours ever,



GODFREY ROBSON  
Private Secretary

I am copying this to Jim Buckley,



16 June 1981

Policy Unit

PRIME MINISTER

CIVIL SERVICE PAY DISPUTE

Judging from Christopher Soames' paper, I think there is still some confusion in people's minds:

1. Refusal to backdate is not the same as "imposing 7%". As we have already argued, "imposing" would be a mistake in any circumstance.
2. Similarly, selective refusal to backdate, when the strike finally ends, would be a mistake. It throws away the Government's most powerful weapon for mobilising moderate opinion. Robert Armstrong clearly agrees.
3. In his minute of 15 June, he also suggests four circumstances in which imposition could make sense. But he does not explain what sense it would in fact make. His four conditions boil down to a situation where the industrial action is effectively running out of steam and people want to get back to work, but militants are preventing settlement and the Government wants to save the unions' face. But if the whole thing is in any case running out of steam, then presumably the unions will disown their militants and settle. If they don't, then a warning, with due notice, that backdating may be withdrawn should bring that about pretty smartly.



JOHN HOSKYNS





CONFIDENTIAL

PRIME MINISTER

Non-Industrial Civil Service: Pay Dispute  
(E(81) 67)

BACKGROUND

At their meeting on 9th June (E(81) 19th Meeting) the Committee considered an outline scheme, proposed by the Lord President, under which the 7 per cent pay offer to the non-industrial Civil Service would be implemented from 1st April for all Civil Servants except those on strike. The Committee came to no conclusions about this scheme or variants of it; or on whether to impose a 7 per cent pay settlement; or to withhold the 7 per cent settlement from everybody until the strike was over. Instead they asked the Lord President to refine his scheme so that it could be available if required. The present paper by the Lord President fulfils the remit. His conclusion (in paragraph 14 of his paper) is that no decision should be taken yet on the paying or withholding of the 7 per cent increase; that he should have authority to indicate the possibility that the operative date of the settlement cannot be held indefinitely at 1st April; and that the setting up of the inquiry into Civil Service pay should be announced next week.

Flag A

2. Your colleagues will also have John Hoskyns's minute to you of 12th June in which he argues against the use of a selective payment scheme and in favour of withholding retrospective payment of the 7 per cent offer, after due notice, as the most sensible response to a decision by the unions to escalate the dispute - if indeed this is the decision of the meeting on 18th June when the Council of Civil Service Unions is to discuss strike tactics.

3. The following issues arise:-

- (a) Should the selective penalty scheme be introduced? The Lord President argues that the scheme should be put on ice (and implies that it is too complex to be effective) and John Hoskyns argues that a selective response to selective action is an inadequate response to that action. It seems doubtful whether the circumstances are yet right for the introduction of this scheme.





CONFIDENTIAL

- (b) Should a 7 per cent increase be imposed? The Lord President argues that this would make sense only if and when the Government was sure that the industrial action is petering out. John Hoskyns argues that imposition now would be irrational. Clearly the question of imposition does not arise at the moment.
- (c) Should the implementation date of the 7 per cent offer be deferred until the strike is over? John Hoskyns argues for this, after due notice, in order to put maximum pressure on civil servants to bring their unions to call off the action. The Lord President sees merit in hinting at the possibility but not, as yet, adopting it as announced policy. Perhaps there is at this stage relatively little between them, since the Lord President's hints would in effect be very like John Hoskyns's due notice. But it is one thing to hint at it; it would be another thing to have to do it. The hint of it might help to encourage a settlement this year; actually to do it would increase the difficulty of getting a satisfactory settlement without renewed industrial action (which would no doubt be more determined) next year. This is not so much a question of "fairness" as of calculation of balance of advantage.
- (d) Should the Chairman and terms of reference of the inquiry be announced next week? This possibility was discussed last time and there is no reason to suppose that any colleagues will dissent.

HANDLING

4. You will want to ask the Lord President to introduce his paper and then to take colleagues through the issues identified above and seeking a collective view on each.

CONCLUSIONS

5. These will follow from the discussion.

RIA

Robert Armstrong

16th June 1981



Civil Service

H.

MR WHITMORE

PROPOSED CIVIL SERVICE INQUIRY

Jim Buckley telephoned (5.25) to say that Judge Lloyd has been asked and is thinking about it over night, and hopes to give an answer tomorrow.

MA

16 June 1981



	CIVIL SERVICE ADMINISTRATION GROUP SETTLEMENT	PAY POLICY	GOVERNMENT IN OFFICE
1964	Pay Research 7% (Paid in full)	"Guiding Light" 3 - 3½%	Up to 4 Oct CON 5 Oct LAB
1965	3½%	"norm" 3 - 3½%	LAB
1966	3½%	"norm" 3 - 3½%	LAB
1967	none	Jan-June "severe restraint" July - Dec zero "norm"	LAB
1968	Pay Research 10% staged over 2 years	Jan-April zero "norm" April-Dec 3 - 3½% "norm"	LAB
1969	5%	3 - 3½% "norm"	LAB
1970	8½%	Jan-June 2½% - 4½% "range" June-Dec no restrictions	Up to 18 June LAB 19 June CON
1971	Pay Research 10%	No restrictions	CON
1972	7½%	Jan-Oct no restrictions Nov-Dec temporary standstill	CON
1973	7% (April) + 11% (Pay research: 'anomalies' settlement - November)	Jan-April Stage 1 April-Nov £1 + 4% Nov-Dec £2.25 or 7%	CON
1974	7%	Jan-July £2.25 or 7% July-Dec Social Contract	Up to 1 March CON 2 March LAB



	CIVIL SERVICE ADMINISTRATION GROUP SETTLEMENT	PAY POLICY	GOVERNMENT IN OFFICE
1975	Pay Research 33%	Jan-July Social Contract Aug-Dec Phase I £6 supplement	LAB
1976	£6 supplement (10% approx)	Jan-July Phase I £6 supplement Aug-Dec Phase II £2.50/5%/£4	LAB
1977	£2.50/5%/£4 supplement (5% approx)	Jan-July Phase II Aug-Dec Phase III - 10%	LAB
1978	consolidation + 9½% (total 10%)	Jan-July Phase III	LAB
1979	Pay research approx 25% staged April 10% August 5% } January 10%	No restrictions	Up to 3 May LAB 4 May - CON
1980	Pay research approx 18.75 in full year but deferred to 7 May 1980 with 2.3% manpower reduction to reconcile with 14% cash limits	Cash limits - 14%	CON



CIVIL SERVICE  
PAY

MESSAGE TO THE PRIME MINISTER FROM THE LORD PRESIDENT

Increments

This is all rather unfortunate and it would have been better if we had not got into it. Industrial Civil Servants who do not receive increments have already drawn attention to it.

The simple point is that when we speak of a pay increase we do not include increments. Many other people receive increments such as teachers, local government workers, and Armed Forces and they are common in structured organisations in the private sector like banks and insurance companies.

But given we are where we are this is the best we can do by way of supplementaries.

16 June 1981



INCREMENTS - SUPPLEMENTARIES FOR PRIME MINISTER'S QUESTION TIME

Question 1 - How does the 7% offer for non-industrial Civil Servants result in an increase of 11% in average pay this year over last?

Answer Three components make up the 11% figure: the deferment of the 1980 pay settlement [which means we are operating from a lower base than we would otherwise have been doing - adding 1.4%]; the effect of increments [one in 1980 and the second in 1981 - adding 2.3%]; and the 7% increase itself.

Question 2 - How can an 11% increase in average pay this year over last be accommodated within a 6% cash limit?

Answer The 11 per cent figure assumes a 7 per cent increase in rates from 1 April with a 1 per cent offsetting saving in staff and administration costs. It is therefore wholly compatible with a cash limit which allows for a 6% increase in pay rates from due settlement dates.

Question 3 - What is the position of industrial civil servants?

Answer Industrial civil servants do not get increments, neither was their 1980 settlement deferred. They are subject to the same cash limits constraint this year as the non-industrials.

Question 4 - How many and what proportion of non-industrial civil servants get increments and how much will those who get them get?

Answer All but 1½ per cent non-industrial civil servants are on incremental scales, but because some are on their scale maximum only about a half, or 260,000, are due for an annual increment this current financial year.



Those getting increments would get on average £264, but since in practice only a half will be getting them in this financial year, the average value of an increment over the non-industrial civil service as a whole is estimated to be £132 (2.3% of average salary).



cc J. Vexler  
A. Dwyer

CONFIDENTIAL

Civil Service



15 June 1981

The Rt Hon David Howell, MP  
Secretary of State for Energy  
Thames House South  
Millbank  
LONDON  
SW1P 4QJ

2

14/6

Dear Secretary of State,

PAY OF PETROLEUM SPECIALISTS

Thank you for your letters of 4 and 5 June. I am also grateful for Geoffrey Howe's letter of 3 June.

I take Geoffrey Howe's point about the advantage of holding this up until the civil service dispute is settled. Unfortunately developments since he wrote mean that we still do not know how long the dispute will last. In view of the urgent recruitment problem, therefore, I agree with you that we should get as much benefit as we can from the new rates for Petroleum Specialists by implementing them straight away. My officials will give authority for this as soon as we have been in touch with the IPCS.

We shall aim to keep the publicity to a minimum. If there is any, we shall certainly emphasise the points made by Geoffrey Howe among others.

You drew attention to the narrowing of differentials at the top end of the structure. I agree that we should look at this again next year.

I am copying this letter to the Prime Minister, Geoffrey Howe and Jim Prior.

Yours sincerely,

Bunceley  
(Private Secretary)

SOAMES

Dictated by the Lord President  
and signed on his behalf.

CONFIDENTIAL



cc J. Veselka  
A. Duguid

Civil Service



Caxton House Tothill Street London SW1H 9NA

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R

Jim Buckley Esq  
Private Secretary to  
the Lord President of  
the Council  
Civil Service Department  
Whitehall  
LONDON SW1

15 June 1981

R  
16/76

Dear Jim,

## LONDON WEIGHTING ALLOWANCES : 1981 UPDATING

The June edition of the Department of Employment Gazette will contain the usual annual article updating the London Weighting Allowances for 1981. It will be published on 25 June but as it is widely referred to in negotiations about London Weighting I am writing to give the main figures in advance of publication. Similar articles have been published each June since 1974 on a standard basis and the index of additional costs for 1981 (April 1974 = 100) is 295.2 for inner London and 250.3 for outer London. These increases in costs over the year April 1980 to April 1981 would require increases in gross earnings of 12.4% for inner London and 12.7% for outer London to meet this additional expenditure in full. The year-on-year increase in the RPI in April 1981 was 12%.

Copies go to the Private Secretaries of members of E Committee and Sir Robert Armstrong.

Yours ever

Richard Dykes

R T B DYKES  
Principal Private Secretary



✓ Mr Dymally  
Mr Verghese  
Ref: A05066



SECRET

PRIME MINISTER

From Mrishi

The Ld President is bringing a paper to E on Wednesday (copy of Flag A) which refines his proposal for selective escalation by Government. It may not now be necessary to escalate at all, but he needs colleagues' clearance in Civil Service Pay Dispute can it prove necessary. I think John's note which argues for uniform

I should like to offer two comments on Mr. Hoskyns's note of 12th June.

2. I agree that, if we escalate, we should escalate universally and not selectively. Selective escalation seems fairer to those who have not supported the strike; but gives them no incentive to bring pressure to bear on the strikers and on the unions to stop the action and settle the dispute.

3. I do not think that imposition is so absolutely absurd as Mr. Hoskyns suggests, though I think that the circumstances in which it would make sense are pretty special, have not occurred yet, and may not occur. It would make sense only if:

- (a) the escalation of industrial action had been a failure, and the strike was self-evidently running out of steam and support;
- (b) we were reasonably certain that the great majority of civil servants had had enough and wanted to get back to normal work and take their money;
- (c) the unions were prevented from settling by the intransigence of a small minority of militants;
- (d) we did not want to make whatever marginal improvement in the offer would "save the face" of the unions.

(Robert Armstrong)

15th June 1981

Sum W  
Cabinet Affairs

TR W

Yes

SECRET

escalation should also be on the agenda. Agree? (John has already circulated it to E. &)

15/6



CONFIDENTIAL



cc Mr Verelkar

10 DOWNING STREET

From the Private Secretary

15 June 1981

Civil Service Pay Enquiry

You will recall that at last week's meeting it was agreed that Sir Derek Rayner's views should be sought on the membership of the Civil Service pay enquiry. Sir Derek has now sent the Prime Minister the enclosed minute, and the Prime Minister would be grateful if the Lord President would take up his suggestion that the Chairman of Boots and Littlewoods should be consulted. She does not think it worth consulting the Chairman of Courtaulds or United Biscuits at this stage.

I am sending a copy of this letter to Sir Derek Rayner.

Jim Buckley Esq  
Lord President's Office

I.P. LANKESTER

CONFIDENTIAL





10 DOWNING STREET

Prime Minister

I suggest that  
 we send a copy of  
 this note from Derek Rayner  
to Lord Soames, saying  
 that you think his idea  
 of consulting each company  
 chairman (of the companies  
 mentioned) a good one.

Yes - but by  
 Agree!  
 Book - Halkinwood's lecture

they seem to have the more detailed & more numerous letters





1. You asked for comments on the proposed membership of the independent inquiry into Civil Service Pay.

2. I shall deal first with the manager members. To my mind, the most important consideration is the breadth of skills and the trading environment of the business with which they are associated. This would lead one to the conclusion that the appropriate candidates would be from firms such as:

- (1) Boots - manufacturing, professional staff, large numbers of junior staff.
- (2) Courtaulds - wide range of activities and operating in difficult circumstances.
- (3) United Biscuits - wide range of food and catering activities; has had to deal in recent years with contraction in some areas and expansion in others in highly competitive markets.
- (4) Littlewoods - exceptionally large numbers of clerical staff and a range of different activities.

3. In my view, it is important to write to the Chairman of each company and ask for an appropriate nomination from the main Board, rather than ask the Chairman himself to serve, as he might well not be well informed in the area that will be covered by the inquiry. For example, Nicholas Horsley of Northern Foods is mentioned; this is a first class large organisation, working successfully in very competitive areas, but Nicholas Horsley is the financial brain of the business. His Managing Director, Christopher Haskins, would be the more suitable nominee.

4. I would certainly include, as is suggested, a member of the existing Pay Research Unit Board as they are well aware of the shortcomings of the present arrangements, as





are highlighted in the latest report and previous communications from Lord Shepherd.

5. The list of proposed Chairmen is a good one. I know them all personally apart from the Judge. Amongst the names listed for members, I would have thought that Mr William Rees-Mogg is not a candidate: his track record does not suggest that he knows how to handle staff and pay. In the list of small businesses, none of those mentioned are known to me, but if you fail to find a candidate from this list, I would suggest Mr S Crookenden, Chairman of K Shoes (medium-sized business), as a man of wide experience. Of the women mentioned, without knowing the person, Marjorie Hurst of Brook Street Bureau seems to come from an ideal background: she must clearly be very familiar with matters of pay and conditions generally available, particularly for junior members of staff.

  
Derek Rayner  
12 June 1981





CIVIL SERVICE DEPARTMENT  
WHITEHALL LONDON SW1A 2AZ  
Telephone 01 273 5400

Sir Ian Bancroft G.C.B.  
Head of the Home Civil Service

*Handwritten signature*

*Handwritten mark*

*Handwritten mark*

Tim Lankester Esq  
Private Secretary  
Office of the Prime Minister  
10 Downing Street  
LONDON SW1

*Handwritten initials*

12 June 1981

Dear Tim,

*Handwritten initials*

INDUSTRIAL ACTION PROGRESS REPORT

The total number of those involved in selective strike action is now 5,664 including 666 staff on unofficial strike in the Department of Employment (see below). Also it is now estimated that about 8,000 staff took part in some form of short protest action during one or another of the three working days beginning Friday 5 June (ie following the breakdown of talks).

The principal departments affected by selective strike action are unchanged: Inland Revenue, MOD, DHSS, Employment, Customs and Excise, MAFF, Trade and Industry, Scottish Courts and the Passport Offices. The most significant developments, including extensive TRD action, have occurred at DHSS and Employment. The position in these departments is set out in more detail below.  
... An Annex setting out total numbers on strike is attached.

Consultative meetings are now being held throughout the country by the SCPS, CPSA and IRSF about the way forward. The National Executive Committees of these unions support all-out strike action, but union members' views are being sought before a final decision is taken by the CCSU Major Policy Committee on 18 June. The other options which are being put to members are acceptance of the present offer, and escalation of the present selective strike action. First reports suggest support for the Executive Committees' recommendation. However, the IPCS are inclined towards increased selective action and the FDA, who are also holding consultative meetings, can constitutionally take part in an all-out strike only if a ballot of their membership comes out in favour.



Situation in individual DepartmentsEMPLOYMENT

As predicted in the last Report, about 850 local office staff in Scotland continued to disregard management instructions to comply with contingency arrangements for the manual payment of unemployment benefits, and went out on unofficial strike from the morning. Although about 30% of the staff concerned have now returned, many of the offices concerned are particularly hard-hit and are seriously behind with the emergency benefit procedures. 587 staff are still on unofficial strike, mainly from six offices, which are closed to the public as a result. Written TRD warnings have been sent to these staff by registered post. It is believed that when they return to work they will recommence disruptive action and management has therefore countered the possibility by enabling final TRD action to be taken immediately should the need arise. A further 44 Unemployment Benefit Offices have been closed to the public today in order for maximum effort to be given to removing the backlog of work on benefit payments. 79 staff from five offices in Hull are expected to terminate unofficial strike action on Monday.

DHSS

Some offices had to close early in the day as a result of overcrowding by social security claimants. 4 offices have closed today for the same reason. In addition two offices closed late on Thursday afternoon due to a walkout by 126 staff.

Today, 15 offices have closed due to 'protest' strike action by staff who are in sympathy with the Department of Employment unofficial strikers. Three other offices are hit by strike action but have been able to open. It is expected that this action will be largely confined to today.

FCO-PASSPORT OFFICE

The United States Government has agreed to an extension of British Visitors' Passports to cover travel to the USA. A further 22 staff at Glasgow, and 6 at the Hayes Record Office, have gone on strike.

MOD

A total of 1,026 staff are now involved in selective action. The pattern continues as before, with Naval operations hardest hit. 15 more staff at the Clyde submarine base have come out on strike today. The Department accounted for a very significant proportion of those involved in 'protest' action between 5 and 9 June.



CUSTOMS AND EXCISE

The pattern of selective action continues as in recent Reports. Export traffic at Dover continues to be subject to delay. Data processing staff at London Airport went on indefinite strike from 9 June.

DVLC

Mail has been delivered across the picket and the blockading action stopped.

Copies as before.

*Yours ever,*

*Jeremy*

J G COLMAN  
Private Secretary



SELECTIVE ACTION BY NON-INDUSTRIAL CIVIL SERVANTS

SUMMARY OF POSITION - 12 JUNE 1981

Department	Number on strike	Remarks
Customs & Excise	457	Strikes by computer, customs and other staff at Southend Computer Centre; Dover/Folkestone/Sheerness/Shoreham/Newhaven; Manchester Betting Duty Office, London and Gatwick airports.
Ministry of Defence	1026	Strikes by computer and other staff at 4 dockyards, 4 RN stores depots, 2 RN armaments depots, Clyde Submarine Base, Royal Ordnance Factories, Feltham and Taunton (Mapping), Bath, Oil Fuel Depots, REME Longmoor
Environment/Transport	69	Senior Data Processors at DVIC.
Foreign and Commonwealth Office	317	Passport Examiners at the London, Liverpool, Peterborough, Newport and Glasgow Passport Offices; staff at Hayes Record Centre
Dept. of Health and Social Security	455	230 staff on strike at Newcastle computer centre; 10 staff at North Fylde central Accounts Office; staff at Reading Computer Centre (59) Livingston Computer Centre (56), and Washington Computer Centre (100).
Home Office		
Inland Revenue	2108	Staff on strike at Shipley, Cumbernauld and Worthing computer centres; staff at various Collection Offices; staff at mail sorting centre, Kew (1769 on strike, 339 TRD)
Paymaster General's Office	27	Strike by 12 computer staff; 12 in Finance Branch, disrupting Government banking transactions; telephonists.
Property Services Agency	80	Strikes by maintenance engineers at RAF Brawdy, Pendine, Aberporth, St Athans, Treow, Cardiff-DWO, Cumbernauld, RAF Bulmer and West Drayton Shoeburyness



Departments	Number on strike	Remarks
Depts. of Trade and Industry	163	Strike by staff who handle search facilities at Companies House, London and Cardiff; telephonists at Cardiff
Scottish Office	25	Staff at the Scottish Computer Centre and 1 CPSA member involved in organising industrial action.
Scottish Courts Administration	235	Strike by staff at Edinburgh and Glasgow Sheriff Courts.
Registers of Scotland	11	Strike by Administrative staff.
MAFF	17	Staff at Guildford Computer Centre.
Employment	674	Computer staff at Reading. 666 staff on unofficial strike in Scotland and in Yorkshire/Humberside area.
TOTAL	5664	Includes 666 DE staff on unofficial strike



APPOINTMENTS IN CONFIDENCE

cc ✓ J. Vacher  
A. Dwyer



Civil  
Service

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

12 June 1981

J. Buckley, Esq.,  
Lord President's Office  
Civil Service Department

12  
1176

Dear Jim,

CIVIL SERVICE PAY : INDEPENDENT ENQUIRY

It was agreed at the Prime Minister's meeting on 10 June that the Chancellor would consult Lady Howe about possible women nominees for the Committee. She is not in a position to offer a view on Daisy Hyams. She thinks Margery Hurst, who is still actively engaged in her business, would be a perfectly sensible choice; but she wonders whether Miss Stella Fisher, who enjoys an at least equally high international reputation, might not be better. Although Miss Fisher has recently retired from active business, it might well be that she would have a fresher and crisper approach to the issues the Committee would be examining. Her address is:

Miss Stella Fisher,  
34, Duchess of Bedford House,  
Duchess of Bedford Walk,  
LONDON. W8

Telephone: 01-937-9139

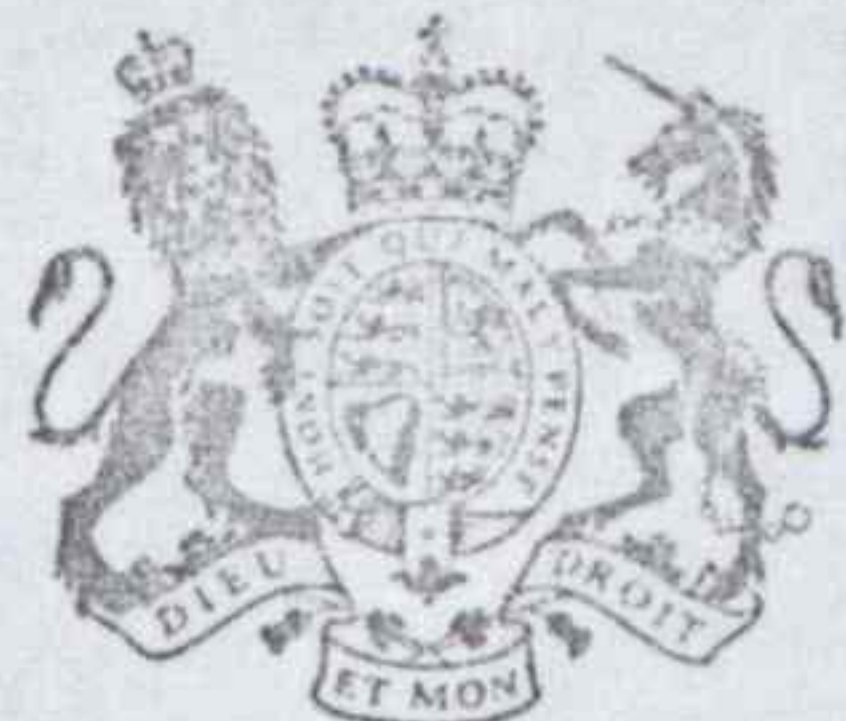
I am copying this letter to Tim Lankester, Richard Dykes and David Wright.

yours sincerely

John Wiggins

A.J. WIGGINS





c. Press Office  
CO

DEmp  
LPres  
HMT

RH  
Civil Service

10 DOWNING STREET

THE PRIME MINISTER

12 June 1981

Dear Mr. Murray,

Thank you for your letter of 10 June. I share your concern about recent developments in the Civil Service pay dispute and I very much regret that the unions are continuing with their disruptive action.

Following the high level of pay settlements in the last pay round, the Government decided that in the national interest the provision for expenditure on public services pay in 1981-82 would need to be strictly limited. The public services cannot be insulated from the economic circumstances of the country at large. Their pay accounts for a high proportion of public expenditure and the cost of this has to be paid through taxes and rates.

The Civil Service unions were given early notice on 1 August that cash limits would be the main basis of the April 1981 settlement. At that time it was thought that it might be possible for the pay research evidence still to have a part to play although the Government had already indicated that for the longer term changes were needed in these arrangements. But the developing economic situation and the corresponding fall in the level of outside settlements made it clear that it would not be right for the Government to allow the pay research procedures to go ahead for the 1981 negotiations. The Civil Service Pay Agreements were accordingly suspended in October.

/The Civil Service



The Civil Service cash limits include a 6% increase in the provision for pay in 1981-82. In the course of negotiations the Government increased its offer by an additional 1% (making 7% in all) to be financed from the cash limits by savings in manpower and other administrative costs. The Government is convinced that the offer is fair and reasonable in present circumstances. Indeed some two million other public service workers (including teachers, National Health Service manual workers and local authority workers) have settled at around the same level with no industrial action. And the average level of settlements in both the public and private sectors in this round is now well within single figures. Since negotiations this year have had to be constrained by the amount of money available within the cash limits it would not have been appropriate for the dispute to be submitted to arbitration. The unions have been given an assurance that next year the Government will be prepared to enter into negotiations without a predetermined limit on the cost of the settlement although, naturally, cost is a factor that will need to be taken into account.

For the longer term, we have said that we were willing to set up an independent inquiry into the future arrangements for settling Civil Service pay. The present pay research system which was introduced some 25 years ago no longer commands general confidence.

There has been increasing public criticism of it, including the need for changes in the way pay comparisons are made and the need for more weight to be given to other factors such as job security and the recruitment and retention position. The unions have proposed a number of changes themselves. It is clear that a thorough review of the present arrangements is needed with the object of establishing a new ordered and agreed system.

The Government believes that this is the best way forward. It offers a sound basis for reaching agreement on a new and lasting system which would command the confidence of both the public and of civil servants themselves. It is a firm indication of the Government's good faith for the future.



In the Government's view, the proposals it has made offer a reasonable basis for settling the present dispute. It deplores suggestions that disruptive action should now be stepped up. It believes that this would inflict unwarranted hardship on the community and cause lasting damage to the standing and reputation of the Civil Service.

Yours sincerely

Margaret Thatcher



## EFFECT OF CIVIL SERVICE DISPUTE ON SOCIAL SECURITY BENEFITS: BACKGROUND

Industrial action by civil servants is affecting the payment of social security benefits.

Benefits for the unemployed

Benefits for the unemployed (unemployment benefit and supplementary benefit) are not being paid by the computer centres at Reading and Livingstone. Instead payments are having to be made manually by staff in Unemployment Benefit Offices. Even this service is not being maintained in some offices in Scotland.

Child Benefits

Industrial action at the Child Benefit Centre, Washington means that new and replacement order books for child benefit are not being issued. The first order books to be held up will be those with a date of first order of 29 June. Arrangements are being made with the Post Office for benefit to continue to be paid when books run out, by production of the book that has just expired. Payments will be delayed for mothers who have sent their order books back to Washington and for new claims.

Retirement Pensions

Payment of retirement and widows pensions is not affected by industrial action. But since March people who are within 4 months of pensionable age have not been receiving the normal invitation to claim retirement pension. People approaching retirement age will have to go to their local Social Security Office in order to qualify for their pension.

The Government is putting forward regulations to enable new pensioners to be given interim payments in lieu of their proper pensions. Those who reach pension age after 10 July and claim their pension at the local office will get only these interim payments. Similar arrangements are having to be made for widows. The arrangements for interim payment will be publicised as soon as possible.

Chancellor of the Duchy of Lancaster  
and Paymaster General  
Privy Council Office  
68 Whitehall  
LONDON SW1

12 June 1981



CONFIDENTIAL

cc Mr. Whitmore  
Mr. Lankester  
Mr. Wolfson  
Mr. Ingham *in*

MR. DUGUID

Civil Service Dispute : Discrimination

We have discussed, and not agreed, whether it would be right to discriminate between strikers and non-strikers in any action the Government takes to hasten the end of the Civil Service dispute. I am sure that we have not thought sufficiently clearly about this issue, which I believe may become an increasingly important one as the strike begins to peter out.

I also think the Prime Minister is in some doubt about it. At her pre-Questions briefing yesterday she received conflicting advice, Clive Whitmore in particular arguing that she should indicate that deferment of the operative date for all Civil Servants was an option under active consideration, while I said that would be wrong. At the time she indicated that she had been convinced by John Hoskyn's note circulated for last week's E discussion, but as you may have seen from yesterday's Hansard, in the event she took the opposite line -

"Most Civil Servants are staying loyally at their posts, and many are working overtime to ensure that benefits are distributed. I do not wish to harm them in any way, or to harm their interests".

There is much force in John Hoskyn's argument that strike action, even though taken by a few, is collective action by the unions as an entity, from which all concerned stand to benefit. Therefore disincentives to strike action should be applied equally, in the hope that if, as we believe, the moderates are in a majority, they will bring pressure on the union leadership to settle (presumably we would also hope that non-union members, who are not generally activists, would join their unions for this purpose). As you know, I think this argument is outweighed by the danger that the non-discriminatory approach would have the opposite effect,

/in

CONFIDENTIAL



in that Civil Servants who have not so far supported or taken industrial action would perceive the Government's approach as unfair, and would be driven to a more militant posture. The Policy Unit's approach implies, does it not, that if the Lord President's proposal were applied in a non-discriminatory way, any industrial action between the expiry of the period of notice and the end of July would result in all Civil Servants losing four months backdating, i.e. one third of the increase offered for this year. I do not find it conceivable that what is in effect the threat of withdrawal of a substantial part of the offer would hasten, rather than hinder, a settlement.

But this issue is not simply about whether a threat of this nature by the Government would have more effect through bringing moderate pressure to bear on the union leadership than the effect of turning moderates into militants. It is, surely, about the longer term effect - and particularly the effect on next year's negotiations - of the Government's posture. I have no doubt that penalising those who have not taken industrial action, which includes the very large numbers who have not even supported industrial action, will be seen not only in the Civil Service but also in the country as a whole as an act of vindictiveness, and further confirmation that the Government is carrying out a vendetta against its own employees. However unfair that might be, that is how it would be seen; and there could be no worse background to what is bound to be a very difficult negotiation over the 1982 settlement than perceived confirmation of the Civil Servants' worst fears about the Government's willingness to act fairly towards them. Nor can we overlook the effect on the small group within the much larger number of those who have not supported action, <sup>who</sup> but have actually taken on extra work in order to mitigate the effects of the dispute. So far, most of the sharp end of the dispute has been in the Revenue departments, where quite senior staff has willingly undertaken rather menial work, such as opening envelopes and routine processing of cheques, at the same time as coping with a particularly long Finance Bill. If all they see as a reward for that is the loss of a third of the pay increase originally offered, I am sure we shall never get such co-operation again, and that industrial action next year would therefore be more effective.



CONFIDENTIAL

Perhaps we should discuss this; I do feel we should try and reach a concensus within this building on what advice to give the Prime Minister.

L. M. M. VEREKER

12 June 1981

CONFIDENTIAL



SECRET

12 June 1981

Policy Unit

PRIME MINISTER

I agree with John.  
mf.

NEXT MOVES ON THE CIVIL SERVICE PAY DISPUTE

After listening to the recent discussions, I am more than ever convinced that the concept of "selective escalation" (eg backdating for non-strikers only) is misconceived in principle and in practical terms. This minute summarises the reasons:

1. A trade union uses selective disruption in order to do the maximum damage to the employer at the minimum cost to its members and funds.
2. The unions claim that their members support this disruption. The members would certainly benefit if it proved successful. If union members did not support it, there would presumably be no voluntary contributions to the strike fund and there would be rank and file pressure to stop disruption and accept 7%.
3. To meet selective disruption with selective retaliation cannot make sense. It cannot reduce the damage done by disruption. But it removes the main negotiating weapon available to Government (ie the withholding of pay increases for everyone until disruption stops).
4. It follows that there can be nothing "unfair" in delaying the implementation date for non-strikers. It is absurd for the Government to fuss about unfairness to civil servants while disruption hits other uninvolved parties in arbitrary (and thus unfair) ways.
5. The idea of "imposing" 7% simply compounds this absurdity. The word may sound very severe, but it is in fact de-escalation in place of escalation. It would remove any risk to non-strikers that their eventual increase will not be backdated. It would remove even the inconvenience of having to wait for the increase until the dispute is settled. The Government would appear quite irrational, as if it was positively anxious to accelerate its own cash outflows.
6. It is quite possible that selective escalation, with or without "imposition", would actually make the disruption drag on even longer, because it would still cost the unions less than the damage caused, and the financial pressure on the moderates would have been removed.

SECRET



SECRET

So we could end up with the great majority of civil servants safely paid their 7%, and the passport queues still standing in the rain in Petty France.

7. We believe that uniform escalation, after due notice, may well be necessary if the trade unions themselves escalate. To ensure that the moderate rank and file can make their voices heard, management could organise a BL-style ballot during the notice period. The Government must get across the simple points made in paragraphs 1, 2 and 4 above to show why we have no choice but to proceed in this way, even though it may seem "unfair" especially to those who have worked hard to keep the system going; and emphasising that that is why we have given the period of warning and arranged the ballot. This would be consistent with your words in the House yesterday:

"Most civil servants are staying loyally at their posts, and many are working overtime to ensure that benefits are distributed. I do not wish to harm them in any way, or to harm their interests".

The choice is theirs, not ours.

8. No problem arises from isolated disruptive action after the end of the period of warning. If the unions have instructed that disruptive action should stop and that no further strike pay will be provided, then such disruptive action would be no different from any other unofficial action. If the unions have refused to do so, then the ultimatum would have been ignored and everyone would lose the backdating. But such an outcome seems unlikely if the membership don't want it and can say so through a ballot.
9. In short, therefore, we believe that it would be better not to escalate at all, than to do so on a selective basis. "Imposing" would be the worst solution of all.

I am copying this minute to all members of E, Robin Ibbs and to Sir Robert Armstrong.



JOHN HOSKYNS

SECRET



APPOINTMENT IN CONFIDENCE

11 June 1981

MR LANKESTER

T.

CIVIL SERVICE PAY INQUIRY.

I have spoken to Tom Boardman. He gives a full vote of confidence to James Ackers.

Ackers is in his early forties, sensible, practical, clear-headed solid fellow. Boardman was not too clear on the nature of Ackers' own business. But Ackers apparently recently took over from Nigel Mobbs as Chairman of the Economic and Industrial Committee of the ABCC. He could get a fuller cv if we need it, but I told him not to bother for the moment. Boardman said that he was delighted to know that Ackers' names was being considered for work on the Inquiry.

*Handwritten initials*

*Handwritten signature*  
Mr Boardman (LSD)

JOHN HOSKYNS





CABINET OFFICE

70 Whitehall, London SW1A 2AS Telephone 01-233 8319

From the Secretary of the Cabinet: Sir Robert Armstrong KCB, CVO

AD - the real flaw in Soames' proposal is not understood  
1. Mr. Hargreaves except by P.T. - Chancellor, or appears.  
2. P.T. (to return to him) around 1/2 p.m.

Ref. A05045

11 June 1981 *AW*

*Dear Clive,*

Civil Service Pay: Economic Strategy Committee, 9th June

--- I enclose a copy of the Most Confidential Record of the Economic Strategy Committee's discussions on Civil Service pay on 9th June. The existence of this Record was not mentioned in the Limited Circulation Annex issued after Tuesday's meeting and it should not, therefore, be referred to or quoted.

I am sending copies to John Wiggins (Treasury), Jim Buckley (CSD) and Richard Dykes (Employment). I should be grateful if they too would ensure that the Record is not referred to and that it is only seen by officials with a real need to know its contents.

In due course, I should be grateful if copies could be returned to me in the Cabinet Office.

*Yours ever,*

*David*

(D J Wright)  
Private Secretary

C A Whitmore Esq



RH



B/C J HOSKYN

10 DOWNING STREET

*From the Private Secretary*

11 June, 1981

Civil Service Pay: Independent Inquiry

You will have seen a copy of John Hoskyns' minute of 10 June in which he suggests that Peter Brown of Reward Regional Survey might make a good member of the Inquiry. John has now checked this person himself, and says that he is not after all a good candidate.

I am sending a copy of this letter to Richard Dykes (Department of Employment), John Wiggins (HM Treasury) and David Wright (Cabinet Office).

J. P. LANKESTER

CJ

Jim Buckley, Esq  
Lord President's Office



10 June 1981

Policy Unit

PRIME MINISTER

CIVIL SERVICE PAY: INDEPENDENT INQUIRY

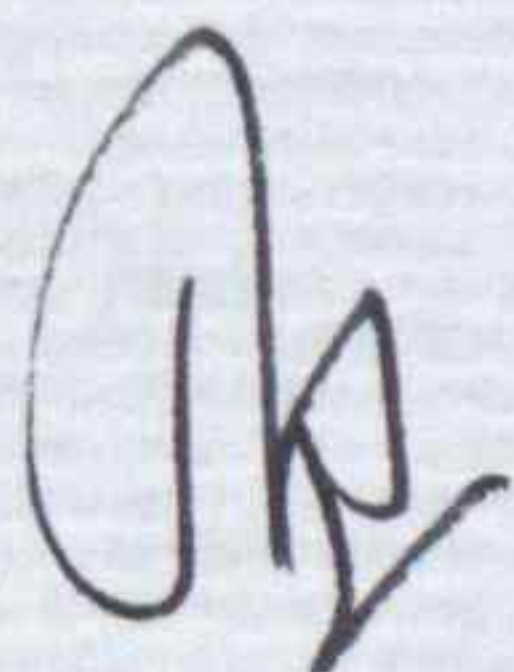
At the meeting of Ministers this morning, we reached tentative agreement on most of the possible members of the Inquiry.

On reflection, it seems to me that we may still be a little short on managers with experience in the personnel field and in particular with the problems of regional variations in pay, to reflect local labour market conditions, since this is one of the main problems in determining Civil Service pay across the country.

I do not know to what extent Ford's, for example, face this problem. Certainly Len Peach, excellent man though he is, will have a rather different experience. As I understand it from Eddie Nixon, IBM individually counsels, appraises and remunerates every one of its 350,000 employees world wide - an almost too perfect model of how it should really be done, and can be done when there is no trade unionisation.

Walter Goldsmith has stressed the need for someone on the Inquiry to be well-versed in this aspect of the problem. He mentioned in particular someone called Peter Brown of Reward Regional Survey as a potentially useful member. I know nothing of him myself, but mention his name in case we want to check him out.

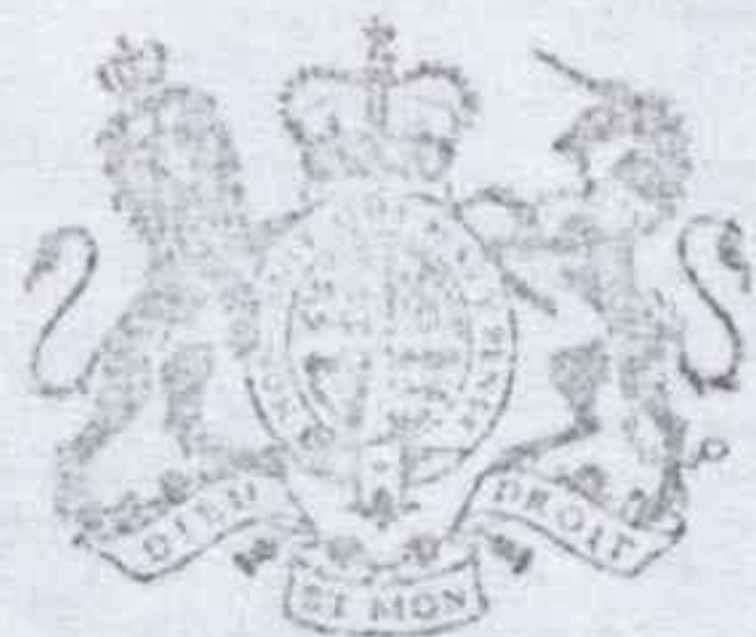
I am copying this minute to those attending today's meeting, and to Sir Robert Armstrong.



JOHN HOSKYNS

*Please make further enquiries, not*





He B  
be Press of

10 DOWNING STREET

*From the Private Secretary*

10 June 1981

Thank you for your letter of 9 June. The Prime Minister has now replied to Lord Shepherd in the terms you suggested, and she is also content for the PRU Board's 1981 Report to be published without delay.

T. P. LANKESTER

Jim Buckley, Esq.,  
Lord President's Office.

J.P.





10 DOWNING STREET

*From the Private Secretary*

APPOINTMENTS IN CONFIDENCE

SIR DEREK RAYNER

---

The Prime Minister held a meeting this morning on the membership of the independent inquiry on Civil Service pay. I enclose a copy of my note of the meeting, and also a copy of Lord Soames' minute of 5 June. The Prime Minister would be very grateful for your views on the possible manager members and any other views you may have in the light of the discussion.

T. P. LANKESTER

10 June 1981



JS/MS

fle

cc. Master set

SUBJECT.



10 DOWNING STREET

From the Private Secretary

10 June 1981

CIVIL SERVICE PAY: INDEPENDENT INQUIRY

As you know, the Prime Minister held a meeting this morning to discuss the membership of the proposed inquiry into Civil Service pay. The following were present in addition to the Lord President: the Chancellor of the Exchequer, the Secretary of State for Employment, Sir Ian Bancroft and John Hoskyns. They had before them the Lord President's minute of 5 June.

Chairman

It was agreed that Mr. Justice Lloyd should be first choice for Chairman. The Lord President should consult the Lord Chancellor on whether he could be made available; he should also seek the Lord Chancellor's advice on how he should be sounded out. If Mr. Justice Lloyd proved unable or unwilling to serve, Sir Alastair Pilkington would be the next best choice. Even if he were not to take the chair, it might be desirable to include him in the membership.

Members

Of the names mentioned in the Lord President's minute, it was agreed that Sir Kenneth Berrill should be first choice. It was also agreed that Lord Shepherd should probably not be invited to be a member: it would be better for the inquiry to take his views in evidence.

Managers

It was agreed that Mr. Robert Ramsay should be first choice. The inquiry should also include a second manager: the best candidate seemed to be Mr. Len Peach of IBM. Another strong candidate might be Mr. G. Russell, Managing Director of Alcan and a member of the PRU Board. He would make a good "regional" representative, and if Lord Shepherd was not to be included, his choice would have the merit of including someone with direct experience of the PRU system. Mr. P.D. Carter of Littlewoods and Mr. Ian MacLaurin of Tesco might also be considered. It was agreed that Sir Derek Rayner should be asked for his views on all these names.

/ Small business



APPOINTMENTS IN CONFIDENCE

-2-

Small business

It was agreed that the best candidate amongst the proposed representatives of small business was Mr. James Ackers. However, it would be desirable to seek Lord Boardman's views - he would know him because of their association of the ABCC. John Hoskyns was asked to do this.

Women

It was agreed that Detta O'Cathain was first choice; but it might be desirable to include a second woman. Daisy Hyams of Tesco and Margery Hurst of the Brook Street Bureau were mentioned. The Chancellor said that he would ask Lady Howe for her views on these and any other possible names.

Economists

It was agreed that Professor Tom Wilson of Glasgow University was first choice. Not only was he good, but he had the advantage of representing Scotland. On professional grounds, Professor Christopher Foster would make an excellent choice if Professor Wilson was not available.

Trade unionists

It was agreed that there should be two trade unionists on the inquiry. The first choice should be Mr. John Baldwin and Mr. David Warburton. Mr. John Chalmers would be a useful reserve.

The main action is now for the Lord President to consult the Lord Chancellor on Mr. Justice Lloyd as possible Chairman. It was agreed that none of the other possible candidates should be approached until a Chairman had been chosen: whoever it was would no doubt have his own views on the membership. The other immediate action is for John Hoskyns to consult Lord Boardman on Ackers, for the Chancellor to obtain Lady Howe's views on possible women members, and I will ask Sir Derek Rayner for his views on the possible manager members. It was also agreed that, bearing in mind the need to have adequate Scottish representation, Mr. Younger's views should be sought generally, and I will write to his office accordingly.

I am sending copies of this letter to John Wiggins (HM Treasury), Richard Dykes (Department of Employment) and David Wright (Cabinet Office).

T. P. LANKESTER

Jim Buckley Esq  
Lord President's Office





3

Civil Service Department  
Whitehall London SW1A 2AZ  
01-273 4400

From the Private Secretary

11 June 1981

Tim Lankester Esq  
10 Downing Street

Prime Minister

This seems a  
good draft.

underneath  
TL

Dear Tim,

...

I enclose a suggested reply which the Prime Minister might send to Mr Len Murray about the Civil Service dispute as requested in your letter of yesterday.

The Lord President thought it right to offer a fairly full reply on this occasion.

I am sending copies of the draft to John Wiggins (Treasury), Richard Dykes (Department of Employment) and David Wright (Cabinet Office).

Yours sincerely,  
Tim Buckley.

J BUCKLEY

he will release  
the letter to the  
press when you  
have signed.

TL



DRAFT LETTER FOR THE PRIME MINISTER TO SEND TO:

Rt Hon Lionel Murray, OBE  
General Secretary  
Trades Union Congress  
Congress House  
Great Russell Street  
LONDON WC1B 3LS

Thank you for your letter of 10 June. I share your concern about recent developments in the Civil Service pay dispute and I very much regret that the unions are continuing with their disruptive action.

Following the high level of pay settlements in the last pay round, the Government decided that in the national interest the provision for expenditure on public services pay in 1981-82 would need to be strictly limited. The public services cannot be insulated from the economic circumstances of the country at large. Their pay accounts for a high proportion of public expenditure and the cost of this has to be paid through taxes and rates.

The Civil Service unions were given early notice on 1 August that cash limits would be the main basis of the April 1981 settlement. At that time it was thought that it might be possible for the pay research evidence still to have a part to play although the Government had already indicated that for the longer term changes were needed in these arrangements. But the developing economic situation and the corresponding



fall in the level of outside settlements made it clear that it would not be right for the Government to allow the pay research procedures to go ahead for the 1981 negotiations. The Civil Service Pay Agreements were accordingly suspended in October.

The Civil Service cash limits include a 6% increase in the provision for pay in 1981-82. In the course of the negotiations the Government increased its offer by an additional 1% (making 7% in all) to be financed from the cash limits by savings in manpower and other administrative costs. The Government is convinced that the offer is fair and reasonable in present circumstances. Indeed some two million other public service workers (including teachers, National Health Service manual workers and local authority workers) have settled at around the same level with no industrial action. And the average level of settlements in both the public and private sectors in this round is now well within single figures. Since negotiations this year have had to be constrained by the amount of money available within the cash limits it would not have been appropriate for the dispute to be submitted to arbitration. The unions have been given an assurance that next year the Government will be prepared to enter into negotiations without a predetermined limit on the cost of the settlement although, naturally, cost is a factor that will need to be taken into account.

For the longer term, we have said that we were willing to set up an independent inquiry into the future arrangements for settling Civil Service pay. The present pay research system which was introduced some 25 years ago no longer commands general confidence.



There has been increasing public criticism of it, including the need for changes in the way pay comparisons are made and the need for more weight to be given to other factors such as job security and the recruitment and retention position. The unions have proposed a number of changes themselves. It is clear that a thorough review of the present arrangements is needed with the object of establishing a new ordered and agreed system.

The Government believes that this is the best way forward. It offers a sound basis for reaching agreement on a new and lasting system which would command the confidence of both the public and of civil servants themselves. It is a firm indication of the Government's good faith for the future.

In the Government's view, the proposals it has made offer a reasonable basis for settling the present dispute. It deplores suggestions that disruptive action should now be stepped up. It believes that this would inflict unwarranted hardship on the community and cause lasting damage to the standing and reputation of the Civil Service.



2.

# TRADES UNION CONGRESS

GENERAL SECRETARY: RT. HON. LIONEL MURRAY OBE

CONGRESS HOUSE · GREAT RUSSELL STREET · LONDON WC1B 3LS

Telephone 01-636 4030

Telegrams TRADUNIC LONDON WCI

The Rt Hon Margaret Thatcher, MP,  
Prime Minister,  
10, Downing Street,  
London,  
S.W.1.

DEPT Secretary's

OUR REF LM/JW

YOUR REF

10, June, 1981

*at by hand  
Verba*

*Prime Minister*

*I showed you this on the way  
to the Palace this morning.  
We have asked Lord Somers  
for advice on a reply.*

Dear Prime Minister,

## Civil Service Dispute

I write to express my grave concern over recent developments in the dispute over civil service pay and conditions, and to urge you to reconsider urgently the Government's current rigid stance over negotiations with the civil service unions.

*John  
10/6/81*

My concern is not prompted by any wish to single out civil servants for special or discriminatory treatment in any way. Indeed, my anxiety is in large measure stimulated by the far-reaching and damaging effects which your Government's actions could have on the conduct of industrial relations more generally.

The TUC is tireless in its pursuit of the establishment of stable arrangements through which pay and conditions of employment can be regulated through orderly collective bargaining. In the civil service since the 1950's, and in recent years throughout the public services more generally, there has been a widespread recognition of the need to supplement the bargaining process with agreed, independent mechanisms through which fair and impartial comparisons can be made with the remuneration of people in employment elsewhere in the economy. These arrangements are essential if public servants are to have confidence that they will not be arbitrarily singled out by Governments to be made the scapegoats in periods of economic adversity.

Not only has your Government unilaterally and high-handedly interfered with the independent Pay Research Unit, which impartially provided those comparisons through which civil service pay could be determined, it has even refused to disclose the contents of the Unit's factual reports.

/... ..

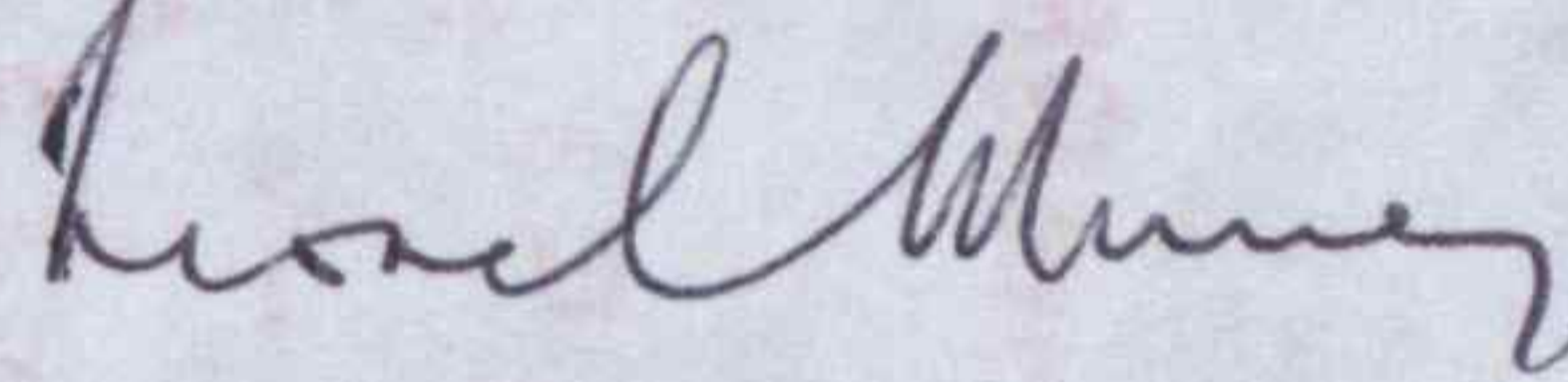


Furthermore, your Government's failure to engage itself in serious negotiations has been followed by a refusal to agree to refer the dispute that inevitably ensued through the previously agreed and longstanding arbitration procedures. These actions - if not rapidly retrieved - will cause long-term damage to industrial relations in the civil service, and indeed more generally.

Governments have a unique responsibility to set an example in the conduct of industrial relations. The failure to honour basic obligations to your own employees, and the breach of existing agreements in this cavalier way, have brought profound discredit on your Government, setting an example which could rebound more generally to the cost of us all in the years ahead.

I urge you to restore public confidence in the vital importance of honouring agreements by taking urgent practical steps to respect and abide by the terms of the undertakings previously given to civil servants.

Yours sincerely

A handwritten signature in dark ink, appearing to read "Harold Wilson", written in a cursive style.

General Secretary





10 DOWNING STREET

THE PRIME MINISTER

10 June 1981

Thank you for your letter of 27 May with which you submitted the Annual Report of the Civil Service Pay Research Unit Board. Arrangements will be made for the Report to be published in the usual way. Thank you also for your separate letter of 27 May drawing attention to what the Report says about "The Future".

The Lord President had told me of your talks over the past few months and in particular of your discussion on Monday. The views of the independent members of the Board on the future basis for settling Civil Service pay are especially welcome at this time and will be studied with interest. I am grateful to you and your Board for the constructive manner in which these have been put forward.

May I take this opportunity to give you and all the members of your Board my thanks for your valuable role in overseeing the work of the Pay Research Unit. I am especially grateful for your patience and forbearance over the recent past which I recognise cannot have been easy.

(SGD) MARGARET THATCHER

The Rt. Hon. Lord Shepherd.

file DS9

see c LPO  
Press office





J 20 #

10 DOWNING STREET

*From the Private Secretary*

10 June 1981

APPOINTMENTS IN CONFIDENCE

The Prime Minister held a meeting this morning to discuss the membership of the independent inquiry on Civil Service pay. I enclose the relevant papers, and as you will see from my record, the Prime Minister would be grateful for any ideas your Secretary of State may have on possible Scottish membership.

I am sending a copy of this letter to Jim Buckley.

T. P. LANKESTER

Godfrey Robson, Esq.,  
Scottish Office.

6



# Briefing Note

TL *Lawson*

## CIVIL SERVICE PAY DISPUTE

On 5th June representatives of the civil service unions turned down the Government's proposals for resolving the civil service pay dispute, which is now in its fourteenth week. The two largest unions immediately authorised additional disruptive action, which is bound to inflict grave hardship on the sick and the unemployed by delaying the payment of social security benefits. An all-out strike is now a very real possibility. Lord Soames, Lord President of the Council and Minister with day-to-day responsibility for the Civil Service, said on 5th June:

"The Government deplore this decision. They will of course do all within their power to minimise the damage and hardship which is caused to individuals and the country" (House of Lords Hansard, 5th June, Cols. 4-5).

The Government's Proposals. The settlement which the unions rejected last week would have brought them:

- A pay increase of 7 per cent (to be financed out of a 6 per cent cash limit by additional manpower savings) on top of the 48 per cent increase awarded in the last two years. In addition, all but 1½ per cent of non-industrial servants are on incremental scales and about half of them are due for an annual increment during the present financial year. On average these increments amount to about 2.3 per cent of total basic pay.
- An independent inquiry into the principles by which civil service pay should be determined in the future.
- Full negotiations next year unconstrained by a pre-determined cash limit (although cash limits will be fixed following discussion to ensure firm control over departmental expenditure).

In a statement after the breakdown of the talks, Lord Soames reaffirmed the government's position:

"Nothing that has been said persuades us that our proposals for the present and the future are not fair and reasonable . . . There is much constructive work and thinking to be done and I have invited the unions to make their contribution to it."

The 7 per cent offer. Some two million public service employees have already settled at around that level without industrial action. Moreover, civil servants have done very well indeed in the last two years. Their pay has gone up by nearly 50 per cent since 1979, whereas average pay in all other occupations has risen by 38 per cent (and prices by 35 per cent).

The Independent Inquiry. Its findings would help both government and unions in devising a new set of arrangements for settling civil service pay to replace the old, unsatisfactory system of pay research established in 1958. During the last ten years the old system only operated on five occasions (four of them under Conservative governments). The unions know that the Government wishes them to co-operate closely in formulating the new agreed procedures. In a letter of 6th May to Mr. Kendall, Secretary of the Council of Civil Service Unions, Lord Soames wrote that:

"It might be helpful to set up an authoritative outside inquiry to provide independent recommendations which would be a starting point for consideration by both sides. I made it clear that we would be ready to discuss the terms of reference and the membership of such an inquiry with you. I very much regret that you have been unwilling to explore this possibility with us."



The Unions and Pay Research. The Government has been strongly attacked by the unions in general, and Mr. Kendall in particular, for setting aside the outmoded system of pay research. In a letter published in The Times on 9th June, Mr. Kendall alleged, as he has done many times before, that:

- there is an 'absence of any idea from Ministers about alternatives'. This criticism is hard to take seriously in view of the unions' failure to take up the offer of an independent inquiry where a range of alternatives could be discussed.

- 'Government have dumped an election pledge about Civil Service pay bargaining'. What the Conservative Party undertook to do while it was still in opposition was to give a fair trial to the system of pay bargaining it would inherit. On 14th August 1978 Mr. Prior said that 'we cannot give blanket approval in advance to the way the Pay Research Unit is working, nor an unqualified promise to implement its future recommendations'. This system no longer inspires public confidence.

Mr. Kendall's support for the old system is not particularly surprising. Its main features were described in an editorial in The Guardian of 25th March which stated that the old system 'has done the unions very well over the years. That is why they defend the system . . . (It) was a slow and secretive system of partial comparisons with the up-market end of industry. That system produced unrealistic, though belated, pay awards which . . . the public accepted - if at all - with derision'. This collapse of public confidence in the old system makes its replacement essential.

The fault of the old system was that it did not take account of a number of important factors. As Mr. Barney Hayhoe, Minister of State at the Civil Service Department, has said:

"Matters concerning the supply and demand of staff, the relative security of employment . . . the relative attractions of terms and conditions as a whole - pay, pensions, leave and the like - as well as the cost and general economic circumstances of the country must be taken into account in establishing the new system" (Hansard, 15th April 1981, Col. 334).

Reputation of the Civil Service. So far the majority of civil servants have rejected the disruptive tactics of the unions, and preserved the reputation of the service as a whole. On 9th April Mrs. Thatcher praised 'the vast majority of public servants who loyally stay at their jobs and take on extra duties' to prevent the country's essential interests from being harmed (Hansard, 9th April, Col. 1112). It is as a result of action taken by a comparatively small number of civil servants that VAT repayments to small businessmen have been cut off, and the plans of holiday-makers upset. This minority has already tried to put the security of the country at risk by refusing to carry out maintenance work on some Polaris submarines. More widespread disruption could have the most serious consequences for civil servants themselves. As Lord Boyd-Carpenter, a former Minister who at one time had responsibility for the civil service, has pointed out:

"Public opinion would be outraged if the civil servants, in pursuit of their own claim, were deliberately to damage the interests of the least fortunate section of our population, the unemployed and the old" (House of Lords Hansard, 8th June 1981, Col. 7).



APPOINTMENTS IN CONFIDENCE

W Whitmore L

10 June 1981

Policy Unit

PRIME MINISTER

CIVIL SERVICE PAY: INDEPENDENT INQUIRY

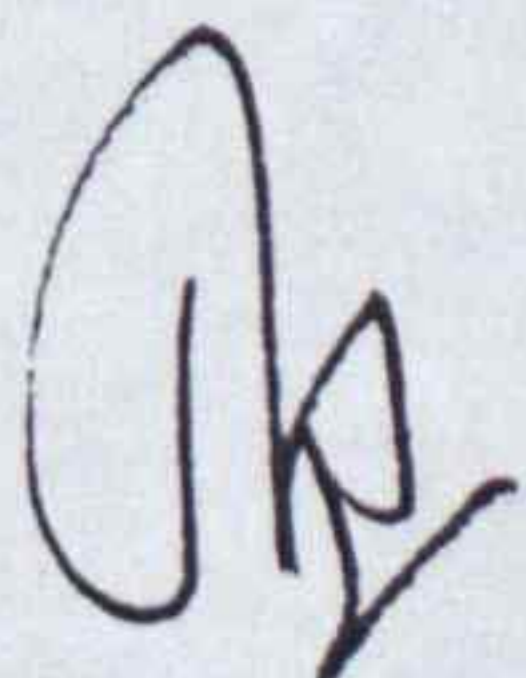
At the meeting of Ministers this morning, we reached tentative agreement on most of the possible members of the Inquiry.

On reflection, it seems to me that we may still be a little short on managers with experience in the personnel field and in particular with the problems of regional variations in pay, to reflect local labour market conditions, since this is one of the main problems in determining Civil Service pay across the country.

I do not know to what extent Ford's, for example, face this problem. Certainly Len Peach, excellent man though he is, will have a rather different experience. As I understand it from Eddie Nixon, IBM individually counsels, appraises and remunerates every one of its 350,000 employees world wide - an almost too perfect model of how it should really be done, and can be done when there is no trade unionisation.

Walter Goldsmith has stressed the need for someone on the Inquiry to be well-versed in this aspect of the problem. He mentioned in particular someone called Peter Brown of Reward Regional Survey as a potentially useful member. I know nothing of him myself, but mention his name in case we want to check him out.

I am copying this minute to those attending today's meeting, and to Sir Robert Armstrong.



JOHN HOSKYNS



Copies to Mr Hodgson  
Mr Verden.

CONFIDENTIAL



Prime Minister.

I am afraid there is a major uncertainty here that needs to be resolved. Tomorrow morning's meeting with the Lord President, the Chancellor and the Secretary of State for Employment provides a good opportunity.

Seen by Sir G.A.

File -

MW  
10/11

MR WHITMORE

cc. Mr Moore  
Mr Wright

ENQUIRY INTO CIVIL SERVICE PAY: TERMS OF REFERENCE

MW  
9/11

Although E Committee this morning apparently reached agreement on the terms of reference for the proposed enquiry into Civil Service pay I fear that there is still a significant potential area of dispute on which I would welcome guidance. This arises on the operative part of the terms of reference.

2. You will recall that the text approved by the Prime Minister yesterday which you sent to the Chancellor of the Exchequer, the Lord President and the Secretary of State for Employment in your minute of 8 June read:-

"... to consider and make recommendations on the principles and the system by which the remuneration and other conditions of the non-industrial Civil Service should be determined, and on other matters related to pay, including management, structure, recruitment and grading".

3. The parallel text in Annex B of the Lord President's paper (E(81) 62) read

"to consider and make recommendations on the principles and the system by which the remuneration of the non-industrial Civil Service should be determined, taking account of other conditions of service and other matters related to pay".

4. In this morning's discussion there was clear agreement on defining "other matters related to pay" by using the Prime Minister's formulation "including management, structure, recruitment and grading".





5. There was also agreement on Mr Jenkins' proposal to delete the word "on" before "other matters related to pay" in the Prime Minister's text. In making this suggestion he was looking at Mr Prior's copy of the Prime Minister's text which most of those present did not have in front of them.

6. Two problems arise. The minor one is that the deletion of the word "on" from the Prime Minister's text spoils the sense. The major one is that the differing ordering of the major elements in the two texts imparts a fundamental difference to the meaning. The Prime Minister's text would require the enquiry to make recommendations on pay related matters. The Lord President's text would require them to take account of pay related matters in making their recommendations on the principles and the system by which Civil Service pay should be determined.

7. And in all this there is the problem that most Ministers present this morning only had the Lord President's text to work on and must have thought they were agreeing to that with minor modifications. Certainly the critical question of whether the enquiry is to make recommendations about "management, structure, recruitment and grading" did not surface - and it would have done I think if the Lord President had understood that his text was being overturned (he has all along fought against extending the enquiry into "Fulton" territory on the grounds that to do so would be incompatible with the quick report he needs).

8. Perhaps the easiest way to resolve any uncertainty here is for the Prime Minister to have a word with the Lord President about it at tomorrow morning's meeting. The choice would then lie between the text in your letter to the Treasury of 8 June unamended (ie. retaining the word "on") and the text in Annex B of E(81) 62 with the words "including management, structure, recruitment and grading" added at the end.



CONFIDENTIAL



CIVIL SERVICE DEPARTMENT

WHITEHALL LONDON SW1A 2AZ

Telephone 01 273 5400

Sir Ian Bancroft G.C.B.  
Head of the Home Civil Service

Tim Lankester Esq  
10 Downing Street  
LONDON SW1

MS

2  
Rina Ansteth  
Latest situation  
report - not  
too bad, though  
the position in  
Scotland (where  
ambulance are  
also already taking  
10 June 1981  
industrial action)  
looks troublesome.

Dear Tim,

INDUSTRIAL ACTION PROGRESS REPORT

TL

The total number of those involved in selective strike action is now 5,046. On the whole the same areas as hitherto continue to be hit by selective action, with signs of escalatory action affecting DHSS and DE. Details are shown below (and in the attached Annex) of the effects on individual departments of selective action and, where ascertainable, of short-term protest action.

10/2

DHSS/DE

Unemployment Benefit Service (DE)

Livingston and Reading Computer Centre are both out indefinitely. The present assessment is that the vast majority of claimants will be getting their payments this week without serious delay. Scotland, however, presents a rather bleak picture with 38 offices refusing to undertake the contingency arrangements or refusing to carry on with the manual processing of claims that have been dealt with clerically to date. It has been made clear to the CPSA that they have until close of play today to bring into line those members who are refusing to undertake contingency arrangements. If they do not do so TRD procedures will be applied.

Child Benefit (DHSS)

The Washington Child Benefit computer is also out, as a result of strike action by 100 staff.

Other new developments

Short-term protest action yesterday affected 5 DE local offices, 4 of which are now back at work.

CAA

It appears that no action has been planned for today or tomorrow.

CONFIDENTIAL



There were, however, some difficulties at West Drayton Air Traffic Control Centre yesterday, and locations are still being picketed. CAA management have written to their trade union side offering to pay the 7% increase from 1 April if staff undertake to withdraw from industrial action.

#### Inland Revenue

The situation remains much as previously reported, though 6 CPSA staff at Kew Mail Sorting and Distributing Centre are now taking industrial action.

#### MOD

985 industrials at ROF Bishopton and 865 at Rosyth Dockyard had to be laid off with pay (on the guaranteed minimum working week) towards the end of last week. As from today, PSA engineers at RAF West Drayton and RAF Bulmer have gone on indefinite strike. Consultation is going on with PSA management to ensure that emergency cover is maintained.

#### Customs and Excise

Selective action affecting the Channel ports continues. In addition, some 60 staff at these ports staged protest strikes yesterday. The data processors at London Airport are now on indefinite strike. Manual fallback arrangements are likely to be used.

#### DVLC

49% of staff supported protest action yesterday but have now returned to work. Picketing continues however, and further attempts to get mail in will be taken.

Copies as before.

*Yours ever,  
Jeremy*

JEREMY COLMAN  
Private Secretary





~~cc~~ J. Vercher  
A. Dupond

N

**with compliments**

This should have been  
attached to J. Colman's letter  
of 10/6 - Industrial Action Progress  
Report.

**SIR IAN BANCROFT**

**CIVIL SERVICE DEPARTMENT  
Whitehall London SW1A 2AZ**

Tel. 01-273 } ..... Switchboard 01-273 3000  
GTN 273 }



SELECTIVE ACTION BY NON-INDUSTRIAL CIVIL SERVANTS  
SUMMARY OF POSITION - 9 JUNE 1981

Department	Number on strike	Remarks
Customs & Excise	550	Strikes by computer, customs and other staff at Southend Computer Centre; Dover/Folkestone/Sheerness/Shoreham/Newhaven/Harwich/Felixstowe/Ipswich; Manchester Betting Duty Office, London and Gatwick airports.
Ministry of Defence	1004	Strikes by computer and other staff at 4 dockyards, 4 RN stores depots, 2 RN armaments depots, Clyde Submarine Base, Royal Ordnance Factories, Feltham and Taunton (Mapping), Bath, Oil Fuel Depots, REME Longmoor
Environment/Transport	69	Senior Data Processors at DVLC;
Foreign and Commonwealth Office	291	Passport Examiners at the London, Liverpool, Peterborough, Newport and Glasgow Passport Offices; Belfast Agency, typing staff at London
Dept. of Health and Social Security	455	230 staff on strike at Newcastle computer centre; 10 staff at North Fylde central Accounts Office; staff at Reading Computer Centre (59) Livingston Computer Centre (56), and Washington Computer Centre (100).
Home Office	8	Staff at Exeter Prison
Inland Revenue	2110	Staff on strike at Shipley, Cumbernauld and Worthing computer centres; staff at various Collection Offices; staff at mail sorting centre, Kew (1769 on strike, 341 TRD)
Paymaster General's Office	27	Strike by 12 computer staff; 12 in Finance Branch, disrupting Government banking transactions; telephonists.
Property Services Agency	73	Strikes by maintenance engineers at RAF Brawdy, Pendine, Aberporth, St Athans, Trewn, Cardiff-DWO, Cumbernauld, RAF Bulmer and West Drayton



Departments	Number on strike	Remarks
Depts. of Trade and Industry	163	Strike by staff who handle search facilities at Companies House, London and Cardiff; telephonists at Cardiff
Scottish Office	25	Staff at the Scottish Computer Centre and 1 CPSA member involved in organising industrial action.
Scottish Courts Administration	235	Strike by staff at Edinburgh and Glasgow Sheriff Courts.
Registers of Scotland	11	Strike by Administrative staff.
MAFF	17	Staff at Guildford Computer Centre.
Employment	8	Computer staff at Reading
TOTAL	5046	



*cc signed  
Verica*



SCOTTISH OFFICE  
WHITEHALL, LONDON SW1A 2AU

The Rt Hon Norman Fowler MP  
Secretary of State for Transport  
2 Marsham Street  
LONDON  
SW1P 3EB

9 June 1981

*Dear Norman,*

*12 June*

I have seen a copy of your letter of 3 June to Willie Whitelaw proposing an amendment to the Transport Bill allowing first-time applicants for provisional licences to drive provided they have sent in a valid application form.

I find two aspects of what you propose somewhat disconcerting. In certain circumstances applications may be sent in good faith which turn out not to be valid and I am not sure from your letter whether someone in this category would be committing an offence if he were to drive. It would, I think, be unduly oppressive if someone who had made a simple error in filling in a form thereby committed a criminal offence. On the other hand, it could be important to retain the criminal offence if someone makes an application and drives on the strength of it, while knowing that for reasons of, say, ill health (such as uncontrolled epilepsy) they would not have been granted a licence.

A second aspect is that of enforcement. Whatever arrangements are brought into effect our police view is likely to be that, provided the other conditions applicable to an 'L' driver are satisfied, no particular difficulty is envisaged in a temporary arrangement of this kind. I think any check which is to be made should be capable of being carried out at the time by means of proof of delivery (eg recorded or registered post). The purpose of the exercise would be defeated if checks were to be delayed until normal operations at DVLC are resumed.

Copied as before.

*Yours truly,  
George.*





Civil Service Department  
Whitehall London SW1A 2AZ  
01-273 4400

From the Private Secretary

9 June 1981

Tim Lankester Esq  
Private Secretary to the Prime Minister  
10 Downing Street  
LONDON SW1

*cc Mr. Hyman*

*Prime Minister  
Attached in letter  
to send to Lord Shepherd.  
Content for  
his report to be  
published?*

Dear Tim,

...  
As requested I attach a draft letter for the Prime Minister to send to Lord Shepherd about the PRU Board's Annual Report. The Board's terms of reference require it to submit an Annual Report to the Prime Minister which would be published. There is nothing in the 1981 Report to cause us to recommend deferring publication and if the Prime Minister is content this can proceed without delay.

→ U

*TL*

In the light of the latest position on Civil Service pay, the Lord President saw Lord Shepherd yesterday. As well as bringing Lord Shepherd up to date on the Government's thinking about an independent inquiry, the Lord President confirmed that the Pay Research apparatus would now be dismantled and the Pay Research Unit run down. No doubt this will in turn lead to the withdrawal of Lord Shepherd and his Board from the scene. The draft for the Prime Minister therefore takes the opportunity to give to the Chairman and his Board the Government's appreciation and thanks - without taking their resignation for granted, in advance of hearing from them.

*Yours sincerely,  
Jim Buckley.*

J BUCKLEY



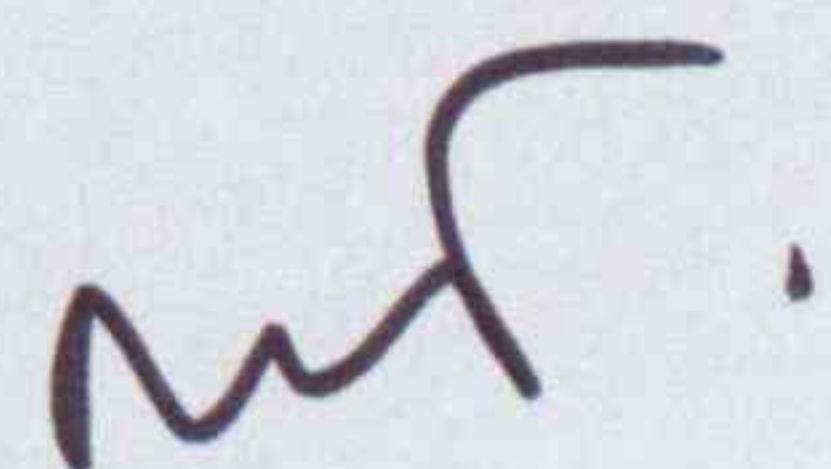
DRAFT LETTER FOR THE PRIME MINISTER TO SEND TO:

The Rt Hon Lord Shepherd, PC  
69 Tufton Street  
LONDON SW1P 3QS

Thank you for your letter of 27 May with which you submitted the Annual Report of the Civil Service Pay Research Unit Board. Arrangements will be made for the Report to be published in the usual way.

The Lord President has told me of your talks over the past few months and in particular of your discussion on Monday. The views of the independent members of the Board on the future basis for settling Civil Service pay are especially welcome at this time and will be studied with interest. I am grateful to you and your Board for the constructive manner in which these have been put forward.

May I take this opportunity to give you and all the members of your Board my thanks for your valuable role in overseeing the work of the Pay Research Unit. I am especially grateful for your patience and forbearance over the recent past which I recognise cannot have been easy.

A handwritten signature in dark ink, appearing to be the initials 'M.S.' or similar, located in the bottom right corner of the page.



c. ~~Mr. Lankester~~  
Mr. Wolfson  
Mr. Duguid  
Mr. Ingham

T

MR. PATTISON

CIVIL SERVICE INDUSTRIAL ACTION

The Prime Minister may wish to know before Questions this afternoon that the Civil Service industrial action has now settled down into a pattern which is by no means alarming, despite the statements made by the unions after their meeting with Lord Soames last Friday.

The new action, which affects payment of benefits by DHSS and the Department of Employment, appears to be - at present - very poorly supported: only 19 DHSS local offices out of a total of 536 are closed today, and only five out of about a thousand of the Department of Employment local offices. However, selective action by computer staff has closed the benefit computers at Reading, Livingston and Newcastle.

Industrial action continues much as before in Customs and Excise (selective action, chiefly on the south coast) and MOD. The Inland Revenue reports a somewhat reduced willingness on the part of management to bear the burden of work normally undertaken by junior staff; there is at present no action being taken by air traffic controllers. The DVLC in Swansea is working normally today, following a walk out yesterday by 49% of the staff.

Not too much can be read into all this, since the unions are still sorting themselves out for the new round of industrial action; but there is certainly no reason at present for alarm.

J. M. M. VEREKER

9 June 1981





*Year on year  
increase 11%.*

**Civil Service Department**  
Whitehall London SW1A 2AZ  
01-273 4400

9 June 1981

Mike Pattison Esq  
Private Secretary to the Prime Minister  
10 Downing Street  
LONDON SW1

*Dear Mike,*

CIVIL SERVICE PAY INCREASES

We had a word last night and I promised to let you have some figures to show the difference in pay this <sup>year</sup> and last for a "typical" civil servant. In fact, as I suspected, the "typical" person is not so easy to find since there have been a number of restructurings of scales which confused the issue.

However, if we look at a clerical officer who has not reached the maximum of his scale we get the following figures:

1 April 1980	£ 3454	
7 May 1980	4077	<i>(Deferred 1 April increase)</i>
1 October 1980 (Increment)	4365	
1 April 1981 (7% increase)	4671	
1 October 1981 (Increment)	5072	

So, the average salary in 1980-81 works out at £4161, and that for 1981-82 at £4872. This is an increase of 17.1%. There are three factors here: the fact that the 1980 pay settlement was deferred which means we are operating from a base lower than it otherwise would have been; the 7% increase itself; and the effect of two increments one in 1980 and the second in 1981. (We have chosen the mid-point of the financial year for the increment).

As the Prime Minister already knows, only about half of the non-industrial Civil Service will get an increment in any one year (some are not on incremental scales and the others are on maximum) so for about half of the service the increase would only exceed 7% to the extent that the staging in 1980 reduced the base for that year.\* This was of course money saved by the Government. Similarly, the sort of increases shown for the Clerical Officer in these figures (about 18%

*\* That is, by about 1 1/2%.*



for the deferred 1980 settlement) are not necessarily those enjoyed by other grades in the Service although they are about the average figure.

Overall, my guess is that "typically" the increase over last year would be about 11%.

Yours sincerely,

Tim Buckley.

J BUCKLEY





cc Duguid  
Vereker

Civil Service Department  
Whitehall London SW1A 2AZ  
01-273 4400

The Rt Hon Norman Fowler, MP  
Minister of Transport  
Department of Transport  
2 Marsham Street  
LONDON SW1P 3EB

9 June 1981

Dear Norman,

12  
1076

I have seen a copy of your letter of 3 June to Willie Whitelaw about the use of the Transport Bill to mitigate the effects of industrial action at DVLC.

I support your proposal to include provisions in the Bill for first-time applicants for provisional driving licences to drive, subject to whatever conditions you impose, before their applications have been processed. It is a positive move which should alleviate pressure on Government in an area which has been the focus of considerable attention in the press and elsewhere recently.

I note that the new powers could not come into effect until at least the end of July. I am sure that in the meantime (and subsequently, as necessary) you will wish to continue to take whatever direct action you may see as appropriate against those who are responsible for the present intolerable position.

Speaking as Leader of the House of Lords, and subject to the views of the Commons Business Managers, I can see no particular problem in fitting in a new clause as you suggest, although the Committee stage is now under way and it may be necessary to move the new clause at Report stage which will hopefully take place towards the end of this month.

I am copying this letter to members of H Committee. Copies also go to the Prime Minister and Sir Robert Armstrong.

Yours ever  
Christoph



PART 5 ends:-

CSD to HMT 8.6.81

PART 6 begins:-

LPC to S/S Transport of 9/6/87



