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PRIME MINISTER

CIVIL SERVICE PAY AND MANPOWER

At Cabinet last Thursday I was asked to explore the scope for avoiding a breakdown over pay with the Civil Service Unions.

Yesterday I had very private and separate consultations with Mr Kendall (Secretary General of the National Staff Side), Mr Gillman (Chairman of the National Staff Side and General Secretary of the SCPS, representing junior and middle management grades) and Mr Thomas (General Secretary of the CPSA, representing Clerks and other junior office staff). These two Unions are the largest in the Civil Service, comprising some 60% of the non-industrial Civil Service. They had all read the article in last Friday's Economist and were assuming that the cash limit would not differ markedly from the 14% already established for other public service groups. They were critical of what they assumed to be our action in setting such a cash limit. It was pointed out that we had said in our Manifesto that we would reconcile pay research with cash limits. How was this reconciliation to be done? They urged me strongly to bridge any gap with a manpower squeeze. Although they obviously cannot say this publicly, and will make ritual protests, it is clear that, in the circumstances, this is their preferred course. They may well brief the press privately that we have been soft on numbers.

As you know, we estimate that the minimum average overall increase we could hope to defend, if need be at Arbitration, as consistent with the pay research evidence, is about 18 $\frac{3}{4}$ %. The Union pay targets are, of course, somewhat higher. Those I have consulted, however, recognise the difficulties we face and privately agree that they would have to make some contribution to a solution. That explains their lack of hostility to manpower cuts.

All three Union leaders were opposed to staging to a greater or lesser degree, Mr Thomas in particular contemplating the possibility of a marginally smaller settlement if staging could be avoided. None of them could guarantee to deliver their committees and member-

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ship. My impression was that if we do have to impose some modest degree of staging they are unlikely to try to mount a real trial of strength with the Government. But we shall certainly have to refuse them arbitration on the staging point, though not on the amount. We can only speculate about the attitude of the other Unions. If I had consulted more widely, it would almost inevitably have leaked.

We must accept, however, that the IPCS, with whom we had a major arbitration battle last year, will cause difficulties. Christopher Soames and I spent a great deal of time last summer urging them to arbitration on pay levels. This summer, we will be stopping any Unions who want to go to arbitration on staging!

The Prison Officers Association may also be a sensitive area. They were disappointed with the pay outcome of the May Committee last year and may not readily accept staging this year. The Home Secretary may have views on this.

Even a modest degree of staging is of course a breach of the Pay Agreements. It is impossible to be precise about the point at which the row about breaking the Agreements would be accompanied by serious industrial action. With even a minor breach, the Unions would make a moral issue of our failure to honour our Agreements with them.

In the light of these talks, I am clearer than ever that we should go for the largest possible manpower squeeze we can get. I would like to go for more but it seems to me from the Cabinet discussion last week that $2\frac{1}{2}\%$, with some small exceptions, is the most we can get - ie rather less than $2\frac{1}{4}\%$ net. This is significantly short of the 3% squeeze that I told Cabinet would offer any real hope of a negotiated settlement though the outcome would be uncertain even at that figure. Some degree of staging is therefore almost certain to be necessary and we must be prepared to accept the consequences.

We must now not delay further in making a decision about the manpower squeeze. I hope we can avoid a situation in which all our colleagues

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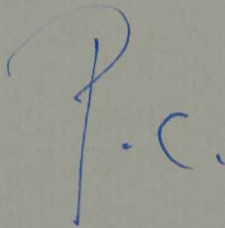
argue that they should be exempted. Otherwise we shall get nowhere.

Complete exemption is probably necessary for Home Office and Scottish Office prison staff, and for the Northern Ireland Office. It might be sensible to restrict the cut in DHSS and Department of Employment to 2%. This would reduce the net reductions to about $2\frac{1}{4}\%$. In addition, there may be a case for restricting the squeeze on the Foreign Office to about 1%. (Because ~~extra~~ extra staff are needed in the Passport Office, this would mean a cut approaching $2\frac{1}{2}\%$ in the rest of the Foreign Office.) We should also need to exempt a number of small departments mainly in the law and order field. In total this would reduce the overall squeeze to 2.2%.

We need to get on urgently with the detailed negotiations with the Unions. Subject to your agreement I will authorise my officials to begin negotiations with the Unions on the basis of the pay research evidence, but within the cash limits agreed at Cabinet last week. The Unions will need to be told what these are. It will also be necessary to make clear at the outset that if some degree of staging proves necessary to keep within the cash limits arbitration will be denied on that issue but not on the amounts. The usual undertaking that pension entitlements will be protected from the effects of staging may help to diminish the potential row about the breach of the Pay Agreement.

I should be grateful to know whether you are content that I should proceed on this basis. Would you perhaps like to discuss this again with the Home Secretary, the Chancellor of the Exchequer and myself, as we did last week?

I am sending a copy of this minute at present to Sir Robert Armstrong only.



PAUL CHANNON
4 March 1980

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