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PRIME MINISTER

Civil Service Pay

I followed up yesterday your suggestion on Friday that I should consult Mr. Alan Lord about this.

2. His views were as follows:-

- (i) It was important to take a firm line with civil servants who were not prepared to do their work with full flexibility. They should be sent home without pay. If necessary, whole offices should be closed, and the unions obliged to honour their commitment to maintain 80 per cent of the earnings. If there were managers who were refusing to carry out managerial duties (e.g. of giving staff the necessary warnings), they should be invited to consider very seriously where their loyalties should lie. In private industry, if managers persisted in refusing to carry out their managerial duties, their services would be dispensed with.
- (ii) The Civil Service should not be offered any improvement on the 7 per cent already offered. If the Government was prepared to offer an extra $\frac{1}{2}$ per cent if that was all that stood in the way of a settlement, it would be very important to make sure, before playing the card, that it would take the trick.
- (iii) Mr. Lord thought that the main grievance of the Civil Service was that the Government had taken away an agreed system of settling pay without putting anything in its place. The Civil Service was entitled (his word) to assurances from the Government that an "ordered and agreed" system should be restored. Mr. Lord realised that there was no possibility of agreeing a new system in the timescale of the settlement of the current dispute. He saw the arguments for going for an inquiry into the long-term system of pay determination. If Ministers did not wish to commit themselves finally to an inquiry, they



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might say to the unions that they would come forward with proposals for a long-term system of settling Civil Service pay, intended to be fair both to the taxpayer and to the staff, which would enable pay negotiations to take into account as objectively as possible all relevant factors, including relevant outside comparisons (but avoiding circularity), economic circumstances, and recruitment and retention, and that, if it was not possible to decide upon a new system by agreement, the Government would be prepared to consider setting up an independent inquiry like the Priestley Royal Commission.

[I think the weakness of this is that, with a commitment to an independent inquiry in the event of failure to reach agreement, the unions would have little or no incentive to try to reach agreement; they would be too concerned to preserve positions for the inquiry. So my judgment still is that, so far as the long term is concerned, there has to be a straight choice between offering to come forward with proposals for discussion with the unions and going straight to an inquiry.]

- (iv) As for 1982, Mr. Lord thought that the idea of a one-year linkage had attractions - it would ensure that the Civil Service did not lose any more ground but it would also avoid any catching up of lost ground in 1982. Either arbitration or an ad hoc independent review would be more risky in that respect. It should be possible to forecast the outcome of a linkage sufficiently closely to be able to set a realistic cash limit. But it would be important to avoid circularity in the linkage. The best way of doing this would be to link to an index of private sector earnings only (manual and non-manual). If there was no suitable index of private sector earnings available, and the monthly index of average earnings had to be used, it would be important to be able to bring other relevant factors (economic circumstances,



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recruitment and retention) into the negotiating frame, and whatever was offered to the unions would have to be so expressed as to permit this. Thus the Government might say that for the 1982 settlement they would be prepared to negotiate with the unions on the basis of an understanding (or a commitment) that the movement of Civil Service pay between April 1981 and April 1982 would be linked for that year only to the movement of earnings in the private sector. Then, if the only index available was one which combined the private and the public sectors, the Government would be free to argue that the increase in Civil Service pay should be less than the movement of the index because of the various factors that had meant that private sector earnings had risen by a smaller amount than public sector earnings over the period. With a link to private sector earnings, the Government would in effect be asking the Civil Service, with a high degree of job security, to accept the same level of increase as the private sector, with much less job security.

3. On the relationship between cash limits and pay, Mr. Lord emphasised the need to insist upon numbers as the other variable. In private industry it was not too difficult to get across to employees and unions that the employer could afford to pay so much, and that, if the unions demanded higher rates of pay, that had to be taken out in reduced numbers. He recognised that that was more difficult in the Civil Service, where responsibility for pay was centralised in the Civil Service Department, while responsibility for numbers lay largely with Departments, and the union leaders at national level who negotiated on pay were not much concerned with or much interested in numbers. But in the presentation both to the unions and to the public the connection should be stressed, so that civil servants were more aware that, in supporting pressures for higher pay, they were putting their own and their colleagues' jobs at risk.

4. Mr. Lord also made the general point that Ministers might find it easier to deal with the Civil Service, and to bring them to accept the realities of the situation in relation to pay, if they abused them (his word) less in public.



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They were the employers of civil servants. For all employers - in the public services as in private industry - it was just as important, if not more important, in the employers' interest, to speak and treat the employees fair in general at times when it was necessary to be very tough on pay and on numbers, as it was at times when conditions were easier. If Ministers could bring themselves to say in public that they believed in and wanted to see an efficient Civil Service fairly paid for its work, that might help to restore the Civil Service's confidence in the Government as employer.

RA

(Robert Armstrong)

7th April 1981