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MR. LANKESTER

Civil Service Pay

Thank you for letting me see the Lord President's minute to the Prime Minister of 12 March, and the brief which has been given to the Chancellor, both in preparation for this afternoon's meeting with the Prime Minister.

I entirely share, if I may say so, the Lord President's assessment that we must wait and see how effective the industrial action is before deciding what action to take ourselves. If the time does come for the Government to make a move, the Lord President warns that we may need to agree a reference of the 1982 pay settlement to the Civil Service Arbitration Tribunal. I have noted that the Prime Minister disagreed with my earlier suggestion that it would be preferable to raise this year's cash limit; the two may in the end turn out not to be alternatives, but I think that the Prime Minister should be aware that allowing the unions access if they want it to arbitration for next year's settlement (and by implication for subsequent years) could turn out to be a very expensive decision. Next year's pay round is going to be marked by a pay factor in the cash limit of about 6%; tremendous pressure to catch up as a result of this year's pay round, increased national insurance contributions, and the budget measures; and the tone of the round being set by a 25% claim from the miners.

Two points on the Chancellor's brief:

(i) No-one should be under the illusion that the work of MISC 54 is going to lead to a new pay system which will be easily negotiable with the unions. Most of the new ideas being discussion would have, as it is clear Ministers wish them to have, the effect of reducing the increases indicated for the Civil Service by PRU.

(ii) The escalating list of disciplinary measures suggested by the Treasury may well be needed to defeat the unions, but because production of these weapons from our arsenal would have appalling effects on management-staff relations, which would be reflected in a much more difficult climate for future pay negotiations, we

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must give the industrial action a change to peter out peacefully first.

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J.M.M. Vereker

13 March 1981

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