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Ind. Enquiry

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Ref. A04712

PRIME MINISTER

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Civil Service Pay Dispute

(C(81) 15)

This memorandum by the Chancellor of the Exchequer and the Lord President was commissioned by the Cabinet on 9th April. Its salient features are:-

- (1) It records the Cabinet's agreement not to increase the 7 per cent offer for 1981 (paragraph 2a.); and it indicates (in the last paragraph) that, if the unions refuse to respond to Government overtures for a settlement, it may be necessary to reconsider the operative date of 1st April.
- (2) It invites the Cabinet to decide whether to deal with the establishment of a longer-term system of pay determination by means of negotiations with the unions or by means of an independent inquiry (paragraph 3).
- (3) It describes (in paragraph 6) the proposed arrangements for flexibility in the operation of the cash limit system in 1982, which would retain the Chancellor's right in the last resort to determine the amount of cash available while not setting a predetermined "pay factor" limit on the amount of a settlement, and therefore leaving some room for negotiations.
- (4) It refers to a note which has been prepared to serve as a negotiating brief for discussions with the unions on the arrangements for the 1982 settlement (paragraph 9); because of the sensitivity of this it will not be circulated in advance but handed round at the meeting and withdrawn at the end of it. A copy of the note is attached to this brief.

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BACKGROUND

2. The purpose of this meeting is to give the Lord President his negotiating brief for opening up with the unions while you are away.

3. Given that there is no disposition to increase the 7 per cent offer, the Lord President's only room for manoeuvre lies in what he says about

- (a) the system for the longer term;
- (b) the 1982 settlement.

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The prospects for a settlement of the current dispute will depend on what he can say about these two questions.

The system for the longer term

4. The Government is already committed to establishing an ordered and agreed system for determining Civil Service pay for the longer term. The question is how to proceed: by means of negotiations with the unions, or by means of an independent inquiry?

5. For the purposes of the current dispute, the minimum position must be to reassert the commitment to establishing an ordered and agreed system, and to promise to discuss with the unions how to proceed.

6. The argument in favour of proceeding by way of negotiations with the unions is that the Government remains in control of the process, and cannot be presented with unpalatable proposals from an independent but authoritative source. But the process of negotiation will not be easy. As the work now in process in MISC 54 already makes clear, what the Government will be trying to get in negotiation will be a series of differences from and changes in the old arrangements which would be improvements from the Government's point of view but would be retrogressive from the unions' point of view. The unions will be well aware of this; and they are not in a mood to be particularly trustful of the Government.

7. Technically the Cabinet do not need to decide at this meeting whether to proceed by way of negotiation or by way of an independent inquiry; and it would be perfectly possible to start by way of negotiation and turn to an independent inquiry only if and when negotiation had run into the sand. But I believe that the Cabinet should decide at this meeting whether the Lord President should be authorised to offer an independent inquiry, if he judges that it would be useful to do so, because such an offer could well prove to be one of the crucial points in securing a settlement of the present dispute.

The 1982 settlement: flexibility in the cash limit system

8. The Lord President will not be discussing the cash limit system with the unions. What matters here is that the Cabinet should be convinced that the various forms of flexibility proposed by the Chancellor give a reasonable freedom



of manoeuvre for negotiation. The paper goes a considerable way in that direction. It envisages:

- (1) provisional decisions on cash limits which do not distinguish the "pay factor" from the "price factor", but have in effect a single "inflation" factor;
- (2) announced cash limit decisions which are realistic but on the low side of realistic, with provision for additional money to be available from the central contingency reserve, if it is necessary to make an offer which goes outside the announced cash limit;
- (3) some flexibility to adjust numbers;
- (4) possible changes in structure of votes.

9. I doubt whether the Cabinet need discuss these matters in detail: they should be able to welcome the additional flexibility. The Secretary of State for the Environment may ask about the implications for local government. The local authorities of course have flexibility through their access to rate revenue as an alternative source of income. It would in theory be possible to top the Rate Support Grant up from the contingency reserve; but the Chancellor will want to be sure that that possibility is not referred to outside the Cabinet Room.

The 1982 settlement: negotiating brief

10. The document to be handed round at the meeting - copy attached - sets out the proposed negotiating brief. The passages in square brackets are those where there is a point of substance for discussion or decision:

- (a) The second sentence of paragraph 1 is in very general form; it could be made more specific, once the Cabinet had decided whether to deal with the long term by means of negotiations or an independent inquiry.
- (b) There is a critical point in paragraph 5. It is the question of the Government's stance on arbitration in 1982. Under the Civil Service Arbitration Agreement, which has not been suspended, the Government is committed to let a claim on pay go to arbitration if agreement is not reached in negotiation. Despite this, Governments have on occasion (including this year) refused to allow a claim to go to arbitration. The





unions will certainly ask whether the Government will be prepared to allow arbitration next year. The first set of words in square brackets would not commit the Government either way: it would leave the matter open. The second set of words in square brackets would commit the Government to letting the claim go to arbitration if negotiations failed. Either way, the Government would (in the last sentence) be reserving the right not to accept the results of arbitration, but would be undertaking not to modify an award without the approval of Parliament.

11. The Chancellor prefers the non-committal form of words, because he feels that a commitment now would be a promise to allow unilateral access to arbitration. The Lord President believes that the combination of:

- (a) no commitment to go to arbitration
- (b) reserving the right to modify the award

would stand no chance of carrying the unions towards a settlement of the dispute. He will argue very strongly that, even if he is to start by not making a commitment, he should be authorised in negotiation to offer a commitment to let the claim go to arbitration, if it cannot be settled by negotiation, but should stick to reserving the right to modify the award.

12. I would judge that the Lord President would have a reasonable chance of reaching an agreement which ended the current dispute, if he had authority to offer in the course of negotiations:

- (1) an independent inquiry into the long-term system;
- (2) for 1982,
  - (a) negotiation in good faith and without a predetermined cash limit;
  - (b) a commitment to let the claim go to arbitration if agreement could not be reached in negotiations.

It would be important that he should reserve the right to modify any award in 1982, if its public expenditure consequences were unacceptable; the unions might be brought to accept this, if (as proposed) the Government promised not to modify an award in 1982 without obtaining Parliamentary approval.



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HANDLING

13. You will wish to invite first the Chancellor of the Exchequer and then the Lord President to introduce the paper. We will have the note on the negotiating brief ready to hand round.

14. If the Secretary of State for Employment is there, he should be invited to speak next. Thereafter the Secretaries of State for Defence, Social Services and Trade may all wish to come in.

CONCLUSIONS

15. You will wish to record a conclusion as to whether the Cabinet are content with the negotiating brief proposed by the Chancellor of the Exchequer and the Lord President; and specific decisions on whether the Lord President is authorised to offer, if he judges it appropriate and useful:

- (1) an independent inquiry into the long-term system;
- (2) a commitment to let the 1982 claim go to arbitration if necessary (reserving the right to modify the award if the cost cannot be accommodated within the flexibilities envisaged by the Chancellor).

16. The Cabinet should also decide whether the Lord President is free to increase the 1981 offer to  $7\frac{1}{2}$  per cent, if that is all that stands in the way of an agreement which could end the dispute, on the understanding that the increase would have to be accommodated within the 6 per cent cash limit.

ROBERT ARMSTRONG

*(drafted by Sr. R Armstrong  
and signed on his behalf)*

13th April, 1981

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