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RECORD OF AN AD HOC MEETING HELD IN THE PRIME MINISTER'S ROOM
AT THE HOUSE OF COMMONS ON WEDNESDAY 15 JULY 1981 AT 1730

Present:

The Prime Minister
The Chancellor of the Exchequer
The Lord President of the Council
The Secretary of State for Employment
The Secretary of State for Defence
The Secretary of State for Health and Social Security
The Attorney General

Sir Robert Armstrong
Mr. P. Le Cheminant
Mr. T.P. Lankester
Mr. J.M.M. Vereker

Civil Service Pay Inquiry: Government Evidence

The Prime Minister said that she had called the meeting to consider the handling and content of Government evidence to the Civil Service Pay Inquiry which was being set up under the chairmanship of Sir John Megaw. The primary responsibility for the preparation and presentation of the Government's evidence rested with the Lord President of the Council; and for co-ordination at official level with the Civil Service Department. Nevertheless it was important that colleagues collectively should agree in advance on the main thrust of the evidence; and should be involved, as the inquiry progressed, in any major issues of principle or presentation which arose.

The Lord President of the Council said that he had set out his present thinking on the Government's evidence in his minute of 10 July to the Prime Minister and in the synopsis attached to it. The report by a group of officials on Civil Service pay arrangements circulated to the Ministerial Committee on Economic Strategy as E(81)50, was also relevant. The Government had already made it clear that its objective was "the establishment of a new, ordered and agreed system which would meet the legitimate interests of all concerned and which would win wide acceptance as a fair and reasonable way of settling Civil Service pay". The Government's

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special relationship with the Civil Service made it dangerous to rely on free collective bargaining as a means of determining pay. A structured system was therefore necessary.

The real question was the kind of structured system which would best meet the Government's requirements. His own view was that, of the four options for the framework of an agreement set out in paragraph 93s of E(81)50, option B was to be preferred. This provided for an agreement under which market factors would be the primary determinant of Civil Service pay rates with provision for "override" for use in exceptional economic circumstances. This would be accompanied by a firm assurance that except during "override" access to arbitration would not be denied. As a matter of tactics he thought that it would not be sensible for the Government to press a particular solution on the inquiry. But the evidence given could obviously influence the inquiry towards the preferred solution.

The Chancellor of the Exchequer said that he too recognised the dangers of presenting the inquiry with a Government "blueprint" and he also wanted an orderly system if this could be achieved. The real problem would lie in the degree of Government commitment to the outcome of any new system. Regard must be paid to the taxpayers' ability to pay and to the requirements of Government economic and fiscal policy. His preference therefore would be for Option A in E(81)50 as the Government's objective. This would provide for a procedure agreement setting out market factors but leaving the way open for any other relevant factor to be introduced in the negotiations. In his view arbitration should be available only by mutual consent.

In discussion the following main points were made:

- (a) the degree of Government commitment to implementing the outcome of any new system lay at the heart of the problem. The old arrangements had proved too mechanistic and did not give adequate scope to reflect either market forces or the requirements of the national economic situation. The Government could not surrender its accountability to Parliament or its ultimate responsibility to the taxpayer.

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- (b) On the other hand, as events this year had shown, there was a trade-off between the degree of commitment of both sides to an ordered pay system and the possibility of damaging industrial action. The requirement was to find a system which could be publicly defended, which could be expected to last, and which would minimise the possibilities of conflict.
- (c) The Government recognised that within any new system there would be a role for outside comparisons with levels of pay in the rest of the economy. It was also not the Government's intention that the terms and conditions of service of Civil Servants should, generally speaking, fall behind those being applied outside the service. But comparisons of pay alone were not enough. Comparative efficiency was of equal importance. How this was to be taken into account in pay determination was a key issue for the inquiry, though it had to be recognised that the nature of the tasks which the Civil Service was asked to do and the way in which they were performed were essentially matters for management.

The Prime Minister, summing up the discussion, said that the summary of evidence circulated by the Lord President of the Council was broadly acceptable to the group, subject only to further consideration of the difficult issue of the degree of commitment to the results of any new system. The Chancellor of the Exchequer had indicated that he had an alternative version of some of the key passages. It would be helpful to the group if the Secretary of the Cabinet could now seek to combine the two texts as a basis for further consideration.

The Group took note, with approval, of the Prime Minister's summing up of their discussion and instructed the Secretary of the Cabinet to proceed accordingly.

17 July 1981