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P.0492

PRIME MINISTER

CIVIL SERVICE PAY DISPUTE: NEXT MOVES
(E(81) 62)

BACKGROUND

Following last week's Cabinet decisions on the Civil Service pay dispute the Lord President of the Council met the union representatives last Friday to tell them of the Government's position. It was subsequently agreed that he should bring his proposals on next steps to E Committee (delay until the Cabinet meeting on Thursday not being acceptable). The present augmented E meeting is the result.

2. The Lord President is now seeking (paragraph 10 of E(81) 62) three things:-

(a) Approval to implement the 7 per cent pay increase from 1 April 1981 except for Civil Servants on strike. The means of achieving the latter result is described at length in Annex A to the paper. In essence any Civil Servant on strike in July would lose the 7 per cent increase from 1 April to the end of July; any Civil Servant on strike in subsequent months would lose the pay increase for that month (or week in the case of weekly-paid staff). Such a scheme would not be easy to administer but the Law Officers' view is that it "gives a reasonable chance of success if challenged in the Courts".

(b) A decision that the long-term pay inquiry should be set up quickly with terms of reference as at Annex B to the paper and that an early announcement should be made.

(c) A decision that continuing industrial action should be met by a more vigorous use of TRD (temporary relief from duty).



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HANDLING

3. You may want to ask the Lord President of the Council to report briefly on his meeting with the unions last Friday. It would then be convenient to take each of the proposals in paragraph 10 in turn.
4. On the pay penalty scheme you will want the Lord President to say a few words and then ask the Lord Advocate to comment (the scheme is, I gather, essentially his) together with the Attorney General who might care to expand on the extent to which such a scheme would be proof against challenge in the Courts. Thereafter the objective will be to see whether colleagues back the scheme, or would prefer an alternative - the most obvious ones being either to refuse to implement the 7 per cent for anyone until the dispute is over (thus putting pressure on the union leaders from their members) or to implement the 7 per cent for everyone now (in the hopes that the dispute will fizzle out).
5. On the long-term inquiry you will want to concentrate attention on the practical issue of whether it should be set in motion now before the dispute is over (if the Lord President is right in thinking that the Report is needed by July 1982 the sooner the work starts the better). The terms of reference in Annex B are those to which you have yourself contributed and need cause few problems. Membership of the inquiry is basically for you to settle outside the meeting. In considering the terms of reference and membership, however, you will need to bear in mind that the Lord President has promised the unions that both would be discussed with them. You might inquire whether the discussions which took place last week fulfil this obligation. One other point which might be got out of the way now is whether the inquiry should take the form of a Royal Commission. The argument for this is that, because the Report is to be the basis of later negotiations with the unions and its findings will be the point of departure on contentious issues, the more weight and authority its findings have, the better.
6. The final proposal, for a more aggressive use of TRD, ought to be acceptable to everyone and need not detain the Committee.



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CONCLUSIONS

7. Subject to discussion but the most likely outcome will be:-

(i) endorsement of the proposals in paragraph 10 of E(81) 62;

(ii) [perhaps] a decision that the inquiry should be set up as a Royal Commission;

(iii) an invitation to you to settle the membership of the inquiry with the Lord President, the Chancellor of the Exchequer and the Secretary of State for Employment and to announce the membership and terms of reference at your discretion;

(iv) agreement on the manner and timing of any announcement about the pay penalty arrangements (oral statements to Parliament by you and the Lord President?).

P Le CHEMINANT

Cabinet Office

8 June 1981

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