

SECRET

c.v. Mosler



MR WOLFSAN

4

10 DOWNING STREET

From the Private Secretary

29 April 1981

Dear Jim,

Civil Service Dispute

As you know, the Prime Minister held a meeting this afternoon to discuss the Civil Service dispute. The following were present in addition to the Lord President: the Chancellor of the Exchequer, the Secretary of State for Employment, Mr. Hayhoe, Sir John Herbecq, Mr. Douglas Smith, Mr. Michael Buckley and Sir Robert Armstrong.

The Lord President first reported on his meeting with the Civil Service unions on 23 April. He had spoken on the lines agreed by Cabinet. The unions had failed to come back for further discussions, but instead had written a wholly negative letter in response. They had subsequently telephoned to say privately that we should not take too much notice of the letter. However, since then there had been no formal contact between the two sides. The unions would shortly be starting their annual conferences, and it would be difficult to engage in negotiations until they were all finished (on 21 May). His own view, therefore, was that there was no immediate prospect of resolving the dispute - and certainly not until after the union conferences.

As regards the conduct of the dispute, there had been gradual escalation on both sides. At the moment, the Government seemed to be winning the "battle of minds", and the unions were being much blamed by the public. But there were likely to be motions at the union conferences calling for a stepping up of the action.

The Chancellor said that the Revenue Departments were still collecting the bulk of their normal revenue. Nonetheless, the cumulative addition to the CGBR since the start of the dispute was now about £2½ billion. While the position of the Customs and Excise had remained more or less unchanged, the receipts of the Inland Revenue had deteriorated: during April the Revenue had lost about 35% of their normal receipts compared with 25% in March. The deterioration in the CGBR would affect the money supply figures; and although the deterioration would eventually unwind, there was nonetheless cause for concern in the short run.

/ The Chancellor

SECRET

The Chancellor went on to say that, in his view, the unions were now showing less firmness of purpose, but at the same time there were no signs of their cracking. It was for consideration whether the Government should now escalate its response to the dispute. The two main options which he had in mind were a change in the law to permit lay-offs where no work was available, and giving notice to the unions that the 7% offer would not be retrospective to 1 April unless there was an early full return to work. He did not believe it would be right to take action on either of these lines while the conferences were meeting; but the Government should be in a position to take such action immediately thereafter.

The Secretary of State for Employment said that, in his view, the Government should "sit tight" until after the conferences. Any action now would play into the hands of the militants and make it difficult for the union leaders to control their conferences. However, he believed that more should be done immediately to put over the Government's position to the public and to civil servants generally.

The following points were made in discussion:

(i) It was noted that only some 4,500 civil servants were currently on strike, yet they were having a very substantial effect particularly on Government revenue. Because the strike was costing the unions so little, the situation could well deteriorate further. While it might be unwise for the Government to escalate while the unions were in conference, it was crucial that the various options should have been fully examined with a view to their implementation immediately thereafter. (In practice, it was suggested that it would be wise to wait until after the Spring Bank Holiday). In addition to the lay-off and no-retrospective options mentioned by the Chancellor, it would be worth considering simply imposing a settlement at 7%. The application of TRD could also perhaps be intensified. On the other hand, it was pointed out that none of these options could be entered into lightly: in particular, there was a risk that if lay-off legislation were introduced, there would be a mass walk-out at the Inland Revenue.

(ii) It was pointed out, in addition to the "stick" options mentioned above, the Government had a significant "carrot" to offer in the form of the independent inquiry and consultations thereon. Once consultations on the inquiry got under way - and again this should not be until after the conferences - it would help to swing moderate opinion within the unions against the militants. On the other hand, it was argued that the inquiry carried with it serious risks: unless a good Chairman was chosen and unless the terms of reference were absolutely right, it could all too easily come up with recommendations which would be extremely costly for the future. It was therefore essential that over the next two to three weeks the Government's own position on the inquiry should be clarified. (The Lord President said that he would be submitting proposals shortly to the Prime Minister.)

/ (iii)

SECRET

- (iii) It was generally agreed that more needed to be done to put over the Government's position, particularly to individual civil servants. Compared with the unions' propaganda, the Government's efforts in this regard had so far been very meagre. There was also a strong case for attacking the unions publicly for refusing to continue the discussions.
- (iv) It was pointed out that, if the Cabinet decided to implement the recommendations fo the Armed Forces Review Body, this would make it more difficult for the civil service unions to accept the 7 per cent offer. By the same token, however, the proposal before Cabinet to reduce the Doctors' and Dentists' Review Body's recommended pay increase to 6 per cent and the proposal to give the Top Salary Review groups 7 per cent should be helpful.
- (v) As regards possible lay-off legislation, it was noted that a draft bill was now ready, though a decision would have to be made as to whether it should cover civil servants alone or all public servants. The draft bill was ten clauses long; if it were to be introduced, there would have to be a Guillotine Motion. It was suggested that the bill could not be passed through the Lords unless a very large number of civil servants were without work.
- (vi) It was questioned whether everything possible was being done to process the smaller cheques which were lying unopened with the Inland Revenue. The Chancellor said that he had already looked into this, but he would keep the position under review.

Summing up, the Prime Minister said that further work needed to be done to refine the "carrot" and "stick" options with a view to possible action immediately after the Spring Bank Holiday. The only point on which the Government should be prepared to negotiate was in relation to the independent inquiry, although it would have to decide in advance how far it was prepared to go. The 7 per cent pay increase and the union demand for arbitration for 1982 were not negotiable. In the meantime, more should be done to put over the Government's position on the lines suggested. She herself would take the opportunity in Question Time, and it would be helpful if the CSD could offer a draft arranged PQ and Answer for the following day.

I am sending a copy of this letter to John Wiggins (H.M. Treasury), Richard Dykes (Department of Employment), Adrian Carter (Civil Service Department) and to David Wright (Cabinet Office).

Jim Buckley, Esq.,
Lord President's Office.

2 *u*
Tim Lahr.