



10 DOWNING STREET

*From the Principal Private Secretary*

3 December 1980

The Prime Minister has asked me to thank you for your letter of 25 November in which, on behalf of the Cabinet Office Staff Side, you recorded the concern felt by Cabinet Office staff at the suspension of the Civil Service Pay Agreement, and the Pay Research procedures governed by it, for the 1981 settlement.

The Prime Minister is well aware that good will and trust underlie relations between staff and management in the Cabinet Office, and she very much hopes that that will continue to be the case. She does not accept, however, that suspending the Pay Research procedures for the 1981 settlement shows a lack of concern at the national level for staff relations in the Civil Service.

The Government has long made clear the need for restraint in pay settlements for both the private and public sectors in the coming year. The present economic situation means that settlements need to be kept as far as possible within single figures if further growth in unemployment is to be avoided. Many settlements in the private sector are being made within single figures, and the public services must clearly play their full part in this. In view of the need to reduce public expenditure the total amount of money which the Government can provide for public service pay will be limited this year. As you know, the Lord President gave notice in August that the cash limit, reflecting what the country as a whole could afford, would be the major determinant of Civil Service pay in 1981. It was hoped at that time that Pay Research would still have a part to play, but the need for restraint has since then become increasingly clear. After very carefully weighing all the factors the Government decided, therefore, that the proper course was to suspend the Pay Agreement for the 1981 settlement.

As you will also know, the Government has been discussing with the Civil Service unions possible changes to the Pay Research system, for the longer term, designed to strengthen its independence and impartiality; and the Prime Minister very much hopes that these talks will continue.

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