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10 DOWNING STREET

THE PRIME MINISTER

12 June 1981

Dear Mr. Murray,

Thank you for your letter of 10 June. I share your concern about recent developments in the Civil Service pay dispute and I very much regret that the unions are continuing with their disruptive action.

Following the high level of pay settlements in the last pay round, the Government decided that in the national interest the provision for expenditure on public services pay in 1981-82 would need to be strictly limited. The public services cannot be insulated from the economic circumstances of the country at large. Their pay accounts for a high proportion of public expenditure and the cost of this has to be paid through taxes and rates.

The Civil Service unions were given early notice on 1 August that cash limits would be the main basis of the April 1981 settlement. At that time it was thought that it might be possible for the pay research evidence still to have a part to play although the Government had already indicated that for the longer term changes were needed in these arrangements. But the developing economic situation and the corresponding fall in the level of outside settlements made it clear that it would not be right for the Government to allow the pay research procedures to go ahead for the 1981 negotiations. The Civil Service Pay Agreements were accordingly suspended in October.

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The Civil Service cash limits include a 6% increase in the provision for pay in 1981-82. In the course of negotiations the Government increased its offer by an additional 1% (making 7% in all) to be financed from the cash limits by savings in manpower and other administrative costs. The Government is convinced that the offer is fair and reasonable in present circumstances. Indeed some two million other public service workers (including teachers, National Health Service manual workers and local authority workers) have settled at around the same level with no industrial action. And the average level of settlements in both the public and private sectors in this round is now well within single figures. Since negotiations this year have had to be constrained by the amount of money available within the cash limits it would not have been appropriate for the dispute to be submitted to arbitration. The unions have been given an assurance that next year the Government will be prepared to enter into negotiations without a predetermined limit on the cost of the settlement although, naturally, cost is a factor that will need to be taken into account.

For the longer term, we have said that we were willing to set up an independent inquiry into the future arrangements for settling Civil Service pay. The present pay research system which was introduced some 25 years ago no longer commands general confidence.

There has been increasing public criticism of it, including the need for changes in the way pay comparisons are made and the need for more weight to be given to other factors such as job security and the recruitment and retention position. The unions have proposed a number of changes themselves. It is clear that a thorough review of the present arrangements is needed with the object of establishing a new ordered and agreed system.

The Government believes that this is the best way forward. It offers a sound basis for reaching agreement on a new and lasting system which would command the confidence of both the public and of civil servants themselves. It is a firm indication of the Government's good faith for the future.

In the Government's view, the proposals it has made offer a reasonable basis for settling the present dispute. It deplures suggestions that disruptive action should now be stepped up. It believes that this would inflict unwarranted hardship on the community and cause lasting damage to the standing and reputation of the Civil Service.

Yours sincerely

Margaret Thatcher