



File  
10 DOWNING STREET

cc: LD. Pres.  
 Meng.  
 Sir J. Waas, HMU  
 Sir I. Bancroft, CSD  
 Sir R. Armstrong, CO

13 March 1981

+ Mr. Verelker.

From the Principal Private Secretary

Dear John,

CIVIL SERVICE PAY

The Prime Minister held a meeting this afternoon with the Chancellor, the Lord President and Mr. Hayhoe, to discuss future arrangements for Civil Service pay in the light of the current Civil Service pay dispute. Sir Robert Armstrong and Douglas Smith were also present.

The Lord President reported that the Civil Service unions were successfully executing a programme of selective and disruptive industrial action, designed to cause considerable inconvenience to the machinery of government in an unpredictable way. How long they could continue would depend on their success in raising funds from their membership; but it was probable that they could carry on for several weeks since they were raising some £2-£3 million a week by contributions of £2 per head, and were spending only £250,000 a week in strike pay. Therefore, although this decision was not immediate, the time would probably shortly come when the Government would have to decide whether to try to settle the dispute, or to escalate it. Possible means of escalation were outlined in his note to the Prime Minister circulated before the meeting, and were not further discussed during the meeting. In the Lord President's view, the way to a settlement would be through the agreement with the unions on longer-term arrangements for pay determination, and specifically on arrangements for the 1982 settlement. He foresaw that the most likely outcome would be that the Government would tell the unions that they intended to negotiate freely for next year's settlement, that both sides could introduce what elements they wished into the negotiations, and that if a negotiated settlement could not be reached, the Government would guarantee access to the Civil Service Arbitration Tribunal, the decisions of which were binding but were not generally as unacceptable to the Government as other arbitration decisions. If, on the other hand, it was the Government's intention to go into the 1982 pay round with a fixed cash limit and to allow no negotiations, then he foresaw no prospect of settling the current dispute.

The Prime Minister said that there was no way to avoid the fact that the Government had to decide on the total sum it could

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afford for the Civil Service pay bill, so that the negotiations had to concentrate on who should get more, who should get less, and how the manpower numbers should be adjusted.

The Chancellor confirmed that the Government had to retain an effective cash constraint. The problem was that the unions wanted a bargaining procedure referable to measured market rates; but the Government had to set the cash constraint before bargaining began. The Government could not subcontract pay determination to an arbitration procedure, but some arbitral arrangement was needed.

Further discussion concentrated on the following issues.

(1) How to achieve a settlement of the current dispute.

It was suggested that the work currently being undertaken by the Official Group (MISC 54) on elements for a new pay determination system could not possibly be completed early enough for its conclusions to help in the resolution of the current dispute and those conclusions might not in any case be welcomed by the unions. Therefore, there would be advantage in preparing interim conclusions, in the form of a broad outline of any new arrangement, which could be presented at an early date to the unions. On the other hand, there was a clear danger that such a procedure would result in expensive concessions being made over future arrangements, and which could even lead to the worst possible outcome, namely the Government having to suspend the new procedure in its first year of operation.

(2) The relationship between pay and manpower.

The Prime Minister made it clear that in her view it was necessary to negotiate with the unions simultaneously on pay and manpower. But it was recognised that the Government had already set, and announced, its target of 630,000 civil servants by 1984. Possible techniques for relating the two needed further investigation.

(3) Reconciliation of any new system with cash limits.

It was suggested that the difficulty in reconciling a new system, which contained an element of negotiation with the unions, with the Government's overriding responsibility to set cash limits for pay in the public service, resulted from the way in which cash limits were set at an early stage, and either announced or leaked. The Chancellor confirmed that he was ready to consider whether the procedure for the timing and announcement of cash limit decisions might be changed so as to enable negotiations to take place with unions before they were aware of the Government's upper limit. But he was surprised to learn that MISC 54 had not been invited to consider the reconciliation of the new elements with cash limits, and asked that this should be looked at again.

(4) The timing of MISC 54's work.

It was felt that these issues were so urgent as to justify MISC 54's work being undertaken even more quickly than at present planned; the Lord President, however, made it clear that if the present deadline of mid-April were brought forward, there would be a

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considerable risk of the Group having to put forward proposals which were not adequately thought through.

The Prime Minister, summing up the discussion, said that Ministers were agreed that no immediate action should be taken to resolve the Civil Service industrial dispute; that work on the new Civil Service pay determination system should not be jeopardised by haste; and that Sir Robert Armstrong should consult Sir Ian Bancroft and Sir Douglas Wass on the machinery for :

- (i) considering the possibility of including manpower as an element in pay negotiation;
- (ii) reconciling cash limits with new elements in the system; and
- (iii) establishing a possible interim formula should its use become necessary.

I am copying this letter to Jim Buckley (Lord President's Office), Richard Dykes (Department of Employment) and to Sir Douglas Wass, Sir Ian Bancroft and Sir Robert Armstrong.

*Yours now,*

*Alwi Whitman.*

A.J. Wiggins, Esq.,  
HM Treasury.