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PRIME MINISTER

cc Mr Vereker

CIVIL SERVICE DISPUTE

The Lord President spoke to me on the telephone this morning to say that he hoped that tomorrow's meeting on the civil service pay dispute could cover the following three main areas:-

Tactics for the next two weeks

Lord Soames said that he saw next week as the watershed in the dispute. Although the leaks and rumours flowing from the unions over the weekend (and he particularly blamed Mr McCall of the IPCS for them) had made things more difficult, he was still hoping that there would be an unannounced and informal meeting between officials and the unions over the bank holiday weekend, which would lead to a meeting between himself and the unions. He therefore needed to begin now to establish with his colleagues what his position should be if such a meeting were to take place. In particular he wanted to be clear on the following points:-

- a) There could be no movement whatever that breached the 6 per cent cash limit. But he was pretty certain that because the manpower run down was going more quickly than had been expected, there would be an underspend on this year's cash limit, and this would make it possible to increase the present offer of 7 per cent to at least 7½ per cent and perhaps to 8 per cent, without breaching the 6 per cent cash limit. Another way of presenting such an increase - still within the cash limit of 6 per cent - would be to leave the present offer of 7 per cent but to supplement it with the offer of a "bonus" at the end of the year comprised of financial savings resulting from a faster than expected run down of staff. The question

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was whether we used this room for manoeuvre or not.

I said to the Lord President that I thought that it would be difficult to convince the public after all we had said that we could find this extra money and still remain within the 6 per cent cash limit. People would suspect a fiddle. Moreover, I thought that there might be repercussions for other groups, particularly the nurses whose numbers were being deliberately increased at the moment and who therefore did not have the opportunity of "earning" a bigger pay increase out of staff savings.

- b) Was there to be any movement on our position on arbitration for 1982? Could we offer arbitration, with Government reserving its final position by being able to refer an arbitration award to Parliament for confirmation or rejection?

I reminded Lord Soames that you had said that arbitration was not negotiable.

- c) He thought that how to proceed on the question of the longer term arrangements (see below) would be easier than the problems of 1981 and 1982.

II. Longer term inquiry : terms of reference and membership

III. Escalation measures

On both these subjects Lord Soames really had nothing to add to what he had said in the papers which ^{will} ~~would~~ be under discussion tomorrow.

John

18 May 1981

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