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10 DOWNING STREET

From the Private Secretary

2 June 1981

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

The Lord President first reported on the weekend discussions with the unions. They had asked for the discussions without setting down any pre-conditions. Meetings had taken place on Friday, Saturday and Sunday. Neither side had conceded anything and no progress towards a settlement had consequently been made. He himself had seen Mr. Kendall privately the previous day. Ministers now had to decide whether to offer some movement on the existing terms and bring the dispute to an end; or to stand firm and see the dispute continue. There seemed little doubt that the Government could drive the unions into the ground; but it would be a drawn out process, it would leave much bitterness behind, and the recovery costs would be increased. On the other hand, he felt that there was now the opportunity to reach an honourable settlement at relatively small cost. Although they would only be offered if he thought in the final analysis they would bring about a settlement, he had it in mind the following concessions. First, the unions would be offered a "bonus" up to a maximum figure per head above the 7 per cent which would have to be met from within the 6 per cent cash limit. A decision on whether and how much to pay would be taken in December. He did not believe the unions would settle without some addition to the 7 per cent; a lump sum "bonus" would have the advantage over a percentage increment in that it would help the lower paid and it would restrain the starting base for the 1982 negotiations to 7 per cent. Also, it would not be counted for pension purposes. The only cost would be an extra £30 million on the pay of Civil Service industrials: if the non-industrials were to get more than 7 per cent, the industrials would have to receive the same. Second, there would have to be some movement on arbitration in 1982, for the unions attached great importance to it. He proposed that the Government could concede arbitration on the basis that, if it considered that the result of arbitration was unacceptable, the Government would ask Parliament to override it.

/The Lord President

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The Lord President said that, in his view, it would cost more in financial terms for the Government to stand firm and allow the dispute to drag on, than to reach a settlement on the basis he proposed. He fully recognised that a political judgement also had to be made. If Ministers took the view that a settlement on the lines he had suggested would be taken as a sign of weakness, then they should not proceed with it. His own view, however, was that from a political point of view they should so proceed.

Mr. Hayhoe said that the atmosphere of the talks had been good, though they had been very drawn out; and the union side had maintained absolute confidentiality. He believed that the union leaders, other than those of the SCPS, wanted a settlement, though there could be no certainty of this.

The Chancellor said that it would be hard to defend any concession in terms of extra money. This would be deeply resented by industry. The idea of a "bonus" was particularly difficult to accept: bonuses should be paid for good conduct, not misconduct. Rather than offer concessions, he felt that the time had now come to consider delaying the starting date for the settlement.

The Secretary of State for Employment said that the dispute would have to be brought to an end sooner or later. The Government were currently on top, but not to such an extent that the dispute would simply collapse in the next few weeks if no concessions were made. Recent history showed that there were no clear cut victories on either side in strike situations. He believed there was a real opportunity now to reach a reasonable settlement. He agreed that the Government should stand firm on the 6 per cent cash limit, and that any addition should be paid as a lump sum (though there was no need to call it a "bonus"). The total figure would come out as less than 8 per cent, which would still look very reasonable. He also agreed that some movement on arbitration was needed: the "controlled" arbitration proposed by the Lord President seemed the best way forward. His strong advice was that the Government should now try to settle on these lines. If it did not, the dispute would drag on, the Government would lose public support, and eventually the cost of the settlement would be higher still.

In discussion the following points were made:-

- i) Lord Soames was now proposing major concessions, coming on top of the decision to offer 7 per cent even though employees in the National Health Service would be getting less, and the decision to allow some flexibility in next year's cash limits. Rather than offer new concessions, the Government should be considering escalation. That would be consistent with the views of Cabinet the previous week. In particular, the Government should now seriously consider the option of imposing a 7 per cent settlement.

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- ii) On the other hand, it was argued that in any bargaining situation there had to be movement on both sides. The Government had not in fact moved much. To stand firm on the existing terms would put the Government's negotiators in a hopeless position: it would mean tying their hands just when there was a good chance of a settlement.
- iii) Rather than pay a "bonus" if the Civil Service manpower targets were more than met, the Government should take the benefit itself in the form of lower public spending.
- iv) An assessment was needed of the cost of allowing the dispute to continue, against the cost of a settlement based on the Lord President's proposals. The Chancellor ought to be in a position to make such an assessment. The Chancellor said that there was a revenue backlog of some £3 billion so far; the recent story in the Times that large amounts of revenue would have to be written off was wrong. It was also pointed out that Lord Soames's proposals would involve indirect costs: they would have repercussions on settlements elsewhere.

In conclusion, the Prime Minister said that she was not persuaded that it would be right to offer the unions any new concessions. If anything, Ministers ought to be considering the need to escalate in response to possible escalation from the unions. If any concessions were to be made, they would have to be agreed by Cabinet.

I am sending a copy of this letter to Richard Dykes (Department of Employment), John Wiggins (HM Treasury) and David Wright (Cabinet Office). Please could you and copy recipients ensure that this letter is seen on a strictly "need to know" basis.

T. P. LANKESTER

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

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