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bcc Vereker
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10 DOWNING STREET

From the Private Secretary

14 July 1981

cc Mante

Dear Tim,

As you know, the Prime Minister held a meeting this morning with the Lord President, the Chancellor of the Exchequer and the Secretary of State for Employment to discuss the Civil Service pay negotiations. Sir Robert Armstrong and Gordon Burrett were also present.

Mr. Burrett said that, following the discussion in Cabinet the previous Thursday, he had seen the union side five times. As envisaged by Cabinet, he had told them that if industrial action were to go on, the Government would be very seriously considering withdrawing the operative date. At the same time, he had sounded them out on a totally informal basis on the possibility of a token increase for 1981 and the possibility of bringing in a third party into the negotiations for 1982. He had indicated that it would be impossible for the unions to obtain concessions on both 1981 and 1982, and he had tried to persuade them not to press for anything in 1981 where he believed their case was weaker. He had made it clear that he was carrying out these soundings on his own initiative with a view to judging whether it was worth his putting new proposals back to Ministers.

Mr. Burrett went on to say that during his meetings on Thursday and Friday he had seemed to be making some headway in persuading the union side that further concessions would have to be minimal. But over the weekend their attitude had hardened. They had come in earlier that morning to say that the minimum requirement for a settlement would have to include an extra ½% for 1981 heavily slanted towards the lower paid and arbitration in 1982 subject only to override by the House of Commons. Their reason for preferring a House of Commons override to a Government override was partly that they believed that their members would be more likely to acquiesce if the Government were to decide that an arbitration award was too high. They had indicated that if these two concessions could be made, the dispute could almost certainly be brought to an end. They would have to consult their members, and they would

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do so on a totally neutral basis: they would not make a recommendation. However, they were quite clear that their members would vote in favour of a settlement. They had also said that they would not be able to call off the industrial action during the consultation process, but they had promised that it would be reduced in intensity.

In discussion the following points were made:

i) It was suggested that the slanting of the extra $\frac{1}{2}\%$ in favour of the lower paid would be undesirable insofar as it would compress differentials. It would also tend to reward those who had been on strike. If an extra $\frac{1}{2}\%$ was not to be offered to all civil servants, it would be far better to provide them with a flat rate addition - rather than, for example, giving £50 to all grades below Executive Officer. On the other hand, it was pointed out that the strikers had not been only amongst the lowest paid. Also, it might be necessary to go along with the unions in order to reach a settlement.

ii) It was suggested that the real reason why the unions preferred arbitration subject to override by the House of Commons was that they believed they would be able to persuade a sufficient number of Conservative MPs to vote against the Government. On the other hand, it was pointed out that very few of those Conservative MPs with large Civil Service constituencies would be likely to vote in this way. Also, the reason that the unions had given to Mr. Burrett appeared to have some force to it.

iii) It was suggested that any extra flat rate addition to the 7% should not be consolidated into basic rates, and that therefore it should not be taken into account for pension purposes nor as the basis for next year's negotiations. Against this, it was argued that it would severely complicate next year's negotiations.

Summing up, the Prime Minister said that Mr. Burrett should continue his informal negotiations with the union side on the basis agreed by Cabinet. But in addition, he now had discretion to indicate that the extra $\frac{1}{2}\%$ could, if necessary to reach a settlement, be slanted in favour of the lower paid. But Ministers were agreed that a flat rate increase would be strongly preferable to an increase that would apply only to the lower paid, and Mr. Burrett should do his best to persuade the union side to accept this. They also agreed that the extra money should be consolidated into basic rates.

I am sending a copy of this letter to John Wiggins (HM Treasury), Richard Dykes (Department of Employment) and David Wright (Cabinet Office). As before, I am sending numbered copies and they should only be seen on a strictly need-to-know basis.

Jim Buckley, Esq.,
Lord President's Office

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Tim Landusti