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PRIME MINISTERCivil Service Industrial Action: Possible Formula

You are to meet the Chancellor, the Lord President and the Secretary of State for Employment tomorrow morning to discuss the Civil Service pay dispute and, in particular, the Herbecq Group's paper on possible formulae for a settlement. This latter was commissioned at your earlier meeting on 13th March and was sent to you by Christopher Soames under cover of his minute of *Flag A -* 27th March.

2. The Group has interpreted its remit as being to find the potential building blocks for an agreed settlement in a situation short of outright victory by the Government or by the unions. The essence of the Group's view is that any agreed settlement must comprise three elements: a cash settlement for this year; an agreed approach to next year's settlement; and a provision for the longer term. The Group do not believe that it is practicable to conflate the last two elements, partly because they do not believe it would be possible to complete negotiations with the unions on an "ordered and agreed system" in time for the 1982 settlement; and partly because they do not believe that the staff would settle for anything short of a firm commitment on the 1982 settlement unless they had been decisively worsted in the industrial action. It is this latter element in the package which is likely to be the most difficult for Ministers.

3. In considering these matters you and your colleagues will wish to start off from an assessment of the likely course and duration of the industrial action. As matters stand, the unions are conducting their operations in a fairly restrained way. They have concentrated mainly on revenue collection, and have avoided going for the jugular (e.g. the payment of social security benefits) and have sought, so far as is possible, to avoid action which adversely affects the general public. The Government's response too has been measured and careful. You will want the assessment of the Lord President and the Chancellor on whether, and for how long, the present situation can continue. Are the unions flagging? Is their action hurting Government? You will also want their view on whether this situation can or should be maintained.



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4. In terms of lost revenue, the action so far has not had too serious an effect. Most of the PAYE revenue, from large and medium-sized employers, is getting through by one means or another. Nor are there any signs that the Government is forfeiting public support. That suggests that the Government need be in no hurry to settle the dispute. In the slightly longer term, however, I think the damage is considerable and cumulative. In the Inland Revenue the situation is beginning to deteriorate, with the management starting to lose credibility and in fear of losing control over revenue collection. The unions are learning how to play the rules against management so as to achieve maximum disruption at minimum cost to themselves. Even more seriously, those staff who are staying at work - and often working harder than usual to do jobs which would otherwise be done by those on strike - are losing confidence in Ministers as their employers. I believe that there is a very real danger of increasing politicisation of Civil Service industrial relations, and of lasting change to the relationship between the Government as employer and its staff. This will still further harm the "image" of the Civil Service in the eyes of politicians and the public. The unions ought to care about this, of course; but I think that it ought also to be a matter of concern to Ministers, and to you as Minister for the Civil Service.

5. In a difficult and potentially dangerous situation it will be important that your colleagues approach the issues in an orderly way. Generalities and anecdotes which deflect attention from the critical issues should be avoided if at all possible. One way of handling it might be to structure the discussion as follows:-

- (a) What is the prognosis for the dispute? Is it meaningful for either side to think in terms of "winning" or "losing"? In particular, can the Government hope to "win" and if so what would be needed to achieve victory? Would the strike crumble if the Government steadfastly maintained its present position? Or would escalation be required (e.g. quick legislation to enable staff to be sent home without pay) and would it work?



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- (b) If the judgment is that the Government can and should set out to beat the unions into the ground, the work of the Herbecq Group is irrelevant. On this scenario the only formula would be the 7 per cent already offered together with the statement already made about the Government's intentions to review future pay determination arrangements (reproduced in paragraph 6 of the Report).
- (c) If the judgment is that war a l'outrance carries too many risks and the chances of the strike collapsing of its own volition are too slim, then the question is what formula is required to bring the dispute to an end. The problem here is that any formula which is likely to be acceptable to the unions brings into question the relationship of pay and cash limits in 1982. Those closest to the dispute believe that the staff will not be persuaded to abandon the dispute (nor the unions to call it off) without some sort of assurance that the 1982 pay award will be based on some "independent" element - either some kind of external relativity or indexation or a commitment to arbitration - and will not be determined simply (as this year) by the fiat of the Government. The Chancellor of the Exchequer has long held to the proposition that cash limits must have primacy in determining Civil Service pay. What he said at your last meeting suggested that his view might have softened and that there was scope for flexibility in how cash limits are determined. But the fact is that for sixty years successive Governments have accepted some independent element in the process of determining Civil Service pay - either outside comparisons or arbitration or both - except in periods of formal incomes policy. The Service will accept settlement by fiat this year; but I think they will feel that they have to stand out for some "independent" element, next year as well as in the long term. They will argue that successive Governments have not been ill-served, on the whole, by the arrangements over the last sixty

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years, when there was no ultimate fiat. The key question therefore is how far the Government is prepared to modify the rigidity of the cash limit system as applied to pay, in order to give its employees a greater sense of fairness and fair dealing, and thus<sup>lead</sup> to an improvement in relations between the Government and its employees.

- (d) It may be that your colleagues will not be willing or able to agree an attitude on either of the above questions tomorrow, and the issues involved are so important that they probably ought to be decided by the Cabinet as a whole rather than by a small group of Ministers, however senior, before any action is taken. But time presses, and the process of seriously considering a formula or formulae for settlement cannot be deferred.

6. As to the formula itself, I set out below some comments on the elements and alternatives identified in the Report. These are:-

1981

- (a) 7 per cent: This is the offer already made and is containable within cash limits.
- (b) 7½ per cent: This is the maximum which the CSD think can be credibly contained within cash limits. The Herbecq Group's unspoken assumption is that Ministers will place a higher value on maintaining cash limits this year than on concessions for the future and would prefer almost any course to a major breach of cash limits this year. Of course, half a per cent is neither here nor there to the staff. But the dispute is at least in part, about this year's pay; 7½ per cent is the figure already in a number of other major public service settlements (e.g. teachers); a little movement here might just tilt the balance towards acceptance of whatever package is finally agreed. But it should be offered only as the last card, because it will increase the difficulty in dealing with other groups, particularly the nurses: their pay is subject to a 6 per cent cash limit, and there is no scope for reductions of manpower on a scale to cover an offer of 7½ per cent.

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1982

(c) Arbitration: If the Group is right in thinking that the main concern of the staff is to have their pay independently determined; that long-term arrangements cannot be in place in time for next year's settlement; and that the staff will want guarantees, not words, for 1982, then arbitration provides, from their point of view, the cleanest way out. The Civil Service Arbitration Tribunal is available and has a good record of making sensible awards. There would be no question of arbitration on PRU evidence - both sides would be free to display whatever information and arguments they wished - but the staff would no doubt hope that arbitration would help restore ground lost this year. Similarly, of course, the Government could hope (though with no certainty) that its arguments about job security and so on would exert a powerful influence. The staff would expect a firm assurance that the results of arbitration would be implemented and that cash limits would be adjusted as necessary to enable the award to be paid. Without these guarantees they would be likely to regard arbitration as meaningless and as worth nothing in the current dispute. The cash limits point goes of course to the heart of the dilemma.

Not possible

(d) Indexation: A possibly cheaper and more predictable alternative to arbitration would be a promise to index pay from April this year to April next. This would be presented as an interim measure pending agreement on longer-term arrangements. The introduction of indexation into pay bargaining would present its own wider problems, but it would give the staff the certainty they seek while, in effect, continuing through to 1983 the downward step-change in Civil Service pay inherent in a 7 or a 7½ per cent settlement this year. The index would need to be chosen with some care - it would have to be an index of pay rather than prices.

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but, given the depression, is unlikely to prove particularly expensive, especially when measured against the alternative of a further dispute next year.

The Longer Term

- (e) Any formula for the longer term must be loosely drawn if it is not, in itself, to pre-empt the negotiations needed to reach an agreed system. For just this reason the unions might well, if they felt they were winning, seek to strengthen the formula in their own interests. But the real battle would lie ahead, and there is no reason to suppose that the unions would prolong the arguments if they had reached what they regarded as a satisfactory settlement for 1981 and 1982. Indeed it could well be that a suitably loose formula, like the one you authorised earlier (reproduced in paragraph 7 of the Report) would be accepted on the nod. If on the other hand no satisfactory agreement, from the staff's point of view, had been reached on 1981 and 1982, the unions would be likely to take a much closer interest in the formula and to seek, in effect, to conduct the essence of the long-term negotiations now. Not only would this be a time-consuming process but probing of the formula would rapidly expose the lack of depth of the Government's position and might thus strengthen union intransigence.
- (f) An outside inquiry: if in the event it were to prove that the long-term arrangements had assumed a central and difficult role in the current negotiations, it would be open to the Government to suggest that the whole question of longer-term pay negotiation in the Civil Service should be remitted to an outside inquiry. To carry conviction, such an inquiry would have to be high-powered possibly a Royal Commission - and its conclusions would effectively bind both parties. There is, thus, a risk that this course would take events out of the Government's hands. But

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again everyone would be free to put in whatever evidence they pleased, and the results could be presented as an attempt to take these difficult issues "out of politics". A Royal Commission would take some time to produce its report, and a choice of this route would therefore heighten the importance that the unions would place on reaching a suitable agreement on the interim arrangements

#### HANDLING

7. I suggest that you invite the Lord President and the Chancellor of the Exchequer to report first on the present state of play in the dispute and on the extent of the damage it is inflicting. Thereafter you might seek to guide your colleagues through the discussion on the lines set out above.

#### CONCLUSIONS

7. These are likely to be of procedure rather than of substance. In particular I think it would be helpful to invite the Lord President to put a paper to Cabinet for its meeting on 9th April assessing the situation and making recommendations for the further handling of the dispute. Major steps cannot be taken without Cabinet approval and you will of course be absent abroad over the Easter period. If you or your colleagues felt that further work should also be commissioned (bearing in mind that the Herbecq Group is already due to produce Reports on the place of manpower savings in Civil Service pay bargaining and the reconciliation of any new pay system with cash limits) this could be put in hand urgently.

(Robert Armstrong)

(approved by Sir R Armstrong  
→ signed on his behalf)

1st April 1981

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