



PRIME MINISTER

At our meeting on 2 July we reverted to the possibility of offering an extra $\frac{1}{2}\%$ to the Civil Service. You suggested that we should say to the Unions that we would go to $7\frac{1}{2}\%$ provided that they agree that the numbers are proportionately reduced.

2. The major problem here is that it would be giving the Unions a say in manpower numbers, something I have always refused to do in answer to their requests. Moreover, if the object of the operation is to get a quick settlement it is simply not possible to agree with departments all the necessary arithmetic for the adjustments at this stage in the year.

3. However, happily we can go ahead if we so wish without this in the sure knowledge that taking departments in aggregate we can advance to $7\frac{1}{2}\%$ without increasing planned public expenditure. How come?

(a) Underspending in the last 4 years on pay and administrative expenditure has averaged about 3% and the lowest has been at least $2\frac{1}{2}\%$;

(b) already ^{at} 1 April this year we were 5,300 below the published estimates for manpower and the indications are that the run-down in the size of the Service continues.

Therefore, even after allowing a margin for extra expenditure during the recovery period - and that gets progressively worse the longer the strike continues - I still conclude that taking the Service as a whole we will end up with an aggregate underspend this year more than sufficient to go to $7\frac{1}{2}\%$. A few individual cash limits may not hold - we recognised that when we went to 7%. But even at $7\frac{1}{2}\%$ these would be more than covered by savings elsewhere.

4. Copies go to Geoffrey Howe, Jim Prior and Sir Robert Armstrong.

S.

Industrials.

SOAMES
6 July 1981