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Prime Minister

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PRIME MINISTER

CIVIL SERVICE PAY

~~This is a progress report. Do you wish simply to note at this stage, pending the Chancellor's next report after his~~

The Chancellor's note reflects the work so far of the Ministerial Group, MISC 66, and of the Official Group, MISC 67, in which I have been participating. I think it raises three questions:

next MISC 66 meeting?
MUS 25/1

(i) First, whether we are right still to be trying to hold the line at 4% in the Civil Service and the NHS. On any realistic assessment, we must expect that the effect of arbitration for the civil servants, and the special circumstances of the nurses, will be some erosion of the 4% - but not necessarily by more than a couple of percentage points. Nonetheless, to keep this erosion as small as possible, we must hold to 4% for as long as possible. So I am sure the first assumption of the Chancellor's note, that the initial offer must be containable within the 4% cash limit, is right.

(ii) Second, what kind of offer within 4% can be made most convincing to the arbitrator. A dis-aggregated offer of the kind discussed at your meeting on 7 January ought to be easier to justify on management grounds than a flat rate increase, provided we choose elements that have genuine management justifications. A flat rate increase must rest its justification on the cash limit, and we have agreed not to let the cash limit pre-determine the negotiations. So I am sure that a dis-aggregated offer is right, as long as we choose the right elements.

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(iii) Third, how can we construct elements in the offer which combine the best possible justification with the greatest acceptability to the unions. The Chancellor records the concern of the Ministerial Group that the approach suggested will be "bitterly resented by the unions", and I know that some senior officials fear that it will look as if either the Government is abandoning the incremental system (because everyone will get the same regardless of whether they are on an incremental scale), or the Government is imposing a pay freeze on half the Civil Service. These are indeed dangers, and good arguments for incorporating in the offer as much of an underpinning flat rate increase as can be afforded within the cash limit - preferably nearer 2% than 1%; and perhaps also going for some tapered increases near the top of incremental scales. These points can be looked at further by officials when they do the arithmetic on the offer. I think it is also essential to see what the management arguments in favour of the elements in a package look like, before going firm on them: at present, we are working more on the basis of what we would like to see than on the basis of what market considerations actually require.

We need to consider carefully whether an offer of the kind proposed will lead to early industrial action. As I said at your meeting, in so far as the offer is probably least attractive to those who are most prone to take such action, it does carry that risk: but the CSD negotiators think that they should be able to hold the line until arbitration. To a considerable extent, that may depend on how the civil servants see the NHS being treated, and how the Budget affects pay packets.

I think it would be right to wait for the Chancellor's report of the outcome of the next meeting of MISC 66, which is

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now postponed

this Thursday afternoon, before committing yourself to the outline pay offer; and you may want to discuss it with your colleagues then. In the meantime, you may feel it would be right to tell the Chancellor that although it seems that work is proceeding on broadly the correct lines, we need to be sure that there are good management grounds, which can be deployed convincingly before the arbitrator, for the elements in it.

J.

25 January 1982