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Treasury Chambers, Parliament Street, SW1P 3AG  
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PRIME MINISTER

FINANCING THE CIVIL SERVICE ARBITRATION AWARD

When we discussed this yesterday, I favoured asking colleagues to absorb the first 1 per cent of the excess cost over 4 per cent in their existing cash limits and finding the remainder (0.9 per cent) from the Contingency Reserve. Since that remainder was equal overall to the amount to be clawed back for the NIS, it should not be necessary to make any changes in cash limits.

2. On reflection, I think it would be very much better to make a clear separation of the pay and NIS transactions, in order to avoid the impression that we are using the NIS cut to finance extra pay - precisely what we have urged the private sector not to do. We announced on Budget Day that cash limits would be reduced by the amount of the 1 per cent NIS cut: this reduction should now be made, and any necessary claims on the Contingency Reserve for extra pay, and consequential changes in cash limits, should come later.

3. I therefore propose a variant of paragraph 3(i) of C(82)16 whereby:-

- (a) the NIS clawback is carried through now;
- (b) colleagues are asked to agree not only to absorb the first 1 per cent of the excess but to make every effort to absorb the rest as well;

/(c) The Chief Secretary

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- (c) The Chief Secretary and I would undertake to give sympathetic consideration in September/October to bids on the Contingency Reserve for any exceptionally hard cases up to a maximum of 1 per cent.

This has the added advantage that it minimises the risk of any further criticism on the lines of the notorious "Times" leader that the Civil Service enjoys automatic access to the Contingency Reserve to finance its pay.

4. Some colleagues may understandably feel reluctant to commit themselves now to trying to find the whole of the excess. But there has been a constant record of underspending on pay subheads even in squeeze conditions (it appears to have been 2½ per cent on pay and g.a.e. combined in 1981-82), and Civil Service numbers on 1 April were some 9,000 below the provision in Estimates. So I think it fair to ask them to make the attempt. But Leon Brittan and I would of course - as agreed yesterday - discuss separately with the Home Secretary and the Defence Secretary the particular problems of the prison service and the Defence Budget.

A handwritten signature in dark ink, appearing to be 'G.H.' with a flourish.

(G.H.)

April 1982