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E(81) 19th Meeting

COPY NO 57

CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

MINUTES of a Meeting held in the Prime Minister's Room, House of Commons on TUESDAY 9 JUNE 1981 at 10.15 am

PRESENT

The Rt Hon Margaret Thatcher MP
Prime Minister

The Rt Hon William Whitelaw MP
Secretary of State for the
Home Department

The Rt Hon Lord Carrington
Secretary of State for Foreign
and Commonwealth Affairs

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer

The Rt Hon Sir Keith Joseph MP
Secretary of State for Industry

The Rt Hon Lord Soames
Lord President of the Council

The Rt Hon James Prior MP
Secretary of State for Employment

The Rt Hon John Nott MP
Secretary of State for Defence

The Rt Hon Peter Walker MP
Minister of Agriculture,
Fisheries and Food

The Rt Hon Michael Heseltine MP
Secretary of State for the
Environment

The Rt Hon John Biffen MP
Secretary of State for Trade

The Rt Hon David Howell MP
Secretary of State for Energy

The Rt Hon Leon Brittan QC MP
Chief Secretary, Treasury

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon Francis Pym MP
Chancellor of the Duchy of Lancaster
and Paymaster General

The Rt Hon George Younger MP
Secretary of State for Scotland

The Rt Hon Patrick Jenkin MP
Secretary of State for
Social Services

The Rt Hon Norman Fowler MP
Secretary of State for Transport

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The Rt Hon Sir Michael Havers QC MP
Attorney General

The Rt Hon Michael Jopling MP
Parliamentary Secretary, Treasury

The Rt Hon Lord Mackay of Clashfern
Lord Advocate

Mr J R Ibbs
Central Policy Review Staff

SECRETARIAT

Mr P Le Cheminant
Mr D J L Moore
Mr W Moyes

SUBJECT

CIVIL SERVICE PAY DISPUTE

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CIVIL SERVICE PAY DISPUTE

The Committee considered a Memorandum by the Lord President of the Council (E(81) 62) on the Civil Service pay dispute. Their discussion and conclusions reached are recorded separately.

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

LIMITED CIRCULATION AGREE
E(81) 15th Meeting Minutes
TUESDAY 9 JUNE 1981 at 10.15 am

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CIVIL SERVICE PAY DISPUTE

The Committee considered a memorandum by the Lord President of the Council (E(81) 62) on the Civil Service pay dispute.

The Committee -

1. Invited the Lord President of the Council:

i. to refine further the scheme described in Annex 1 of E(81) 62 and variants of it, in the light of their discussion, and to report back;

ii. to consider the case for, and possible methods of, referring civil servants individually to the committee which would advise to them in terms of back pay and in other ways from the implementation of the Government's proposals to settle the present dispute.

Cabinet Office

9 June 1981

2. Approved the terms of reference for the inquiry into Civil Service pay arrangements set out in Annex 2 of E(81) 62, subject to the revisions agreed in discussion.

3. Agreed that the proposed inquiry should not take the form of a Royal Commission.

4. Took note that the Prime Minister, in consultation with other Ministers most directly concerned, would consider further the membership of the committee of inquiry.

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MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

LIMITED CIRCULATION ANNEX
E(81) 19th Meeting Minutes
TUESDAY 9 JUNE 1981 at 10.15 am

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CIVIL SERVICE PAY DISPUTE

The Committee considered a memorandum by the Lord President of the Council (E(81) 62) on the Civil Service pay dispute.

The Committee -

1. Invited the Lord President of the Council:
 - i. to refine further the scheme described in Annex A of E(81) 62 and variants of it, in the light of their discussion, and to report back;
 - ii. to consider the case for, and possible methods of, informing civil servants individually of the benefits which would accrue to them in terms of back pay and in other ways from the implementation of the Government's proposals to settle the present dispute.
2. Approved the terms of reference for the inquiry into Civil Service pay arrangements set out in Annex B of E(81) 62, subject to the revisions agreed in discussion.
3. Agreed that the proposed inquiry should not take the form of a Royal Commission.
4. Took note that the Prime Minister, in consultation with other Ministers most directly concerned, would consider further the membership of the committee of inquiry.

5. Agreed to discuss at a later meeting the timing of the announcement of the terms of reference and membership of the inquiry into Civil Service pay arrangements and, in the light of developments, the case for further action in response to the Civil Service pay dispute.

6. Approved the recommendation in paragraph 10(c) of E(81) 62.

Cabinet Office

9 June 1981

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MOST CONFIDENTIAL RECORD

E(81) 19th Meeting

CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

MINUTES of a meeting held in
the Prime Minister's Room at
the House of Commons on Tuesday,
9 June 1981 at 10.15 am.

CIVIL SERVICE PAY DISPUTE

THE COMMITTEE considered a memorandum by the Lord President of the Council (E(81)62) on the Civil Service pay dispute.

THE LORD PRESIDENT OF THE COUNCIL said that he had told the Civil Service unions on 5 June that the Government was not prepared to improve on its proposals for a 7 per cent increase from April 1981, for interim arrangements for determining pay in 1982, and for an independent inquiry into Civil Service pay arrangements with effect from 1983. As a result, the unions had broken off discussions with the Civil Service Department and had announced their intention of escalating industrial action; it was too early to judge how widespread this action would be, and the extent of the support which the union leadership would get from their members. In dealing with the pay increase in 1981, there were broadly three possible courses of action. First, the 7 per cent increase could now be imposed with effect from April 1981. He would not wish to rule out this possibility, but for the time being he recommended against it: it would not necessarily bring industrial action to an end, and it would be resented by the public as giving extra money to Civil Servants who were selfishly inflicting damage and inconvenience on others. Secondly, the payment of the 7 per cent increase could be withheld until all disruption was ended. He strongly recommended against this course on the grounds that it would penalise and

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antagonise the great majority of moderate Civil Servants who were not taking industrial action in a situation where there might be continued pockets of resistance for some time. Thirdly, the Law Officers had devised an ingenious scheme, set out in detail in Annex A to E(81)62, which would have the effect of penalising only those who continued to strike or otherwise disrupt services. Notice would be given that Civil Servants would be eligible for a 7 per cent increase for each pay period falling between 1 July 1981 and 31 March 1982 in which they did not engage in industrial action. Those eligible for payment on this basis at the end of July could then also be given a lump sum for the three months from April to June 1981; alternatively the three months' back pay could be paid in monthly instalments from July to September with the payment of each instalment dependent on the Civil Servant concerned continuing to refrain from industrial action. He would prefer the latter course on the grounds that it would give a more effective incentive to withdraw from industrial action and would avoid the possibility of Civil Servants taking action to secure the full amount of their back pay in July and then, having got their money, resuming action. Either of the variants of this third course could be implemented forthwith, or a decision on them could be deferred until it was clear how the industrial action was developing. It was important to set up as soon as possible the inquiry into Civil Service pay, if there were to be a report by July 1982 leading to implementation of the new system in time for the 1983 pay settlement. He recommended the terms of reference set out in Annex B to E(81)62 subject to the addition, at the end, of the words "including management, structure, recruitment and grading." It was essential that the membership of the inquiry should be such as to command the confidence both of the general public and of the Civil Service, and he had put forward suggestions separately to the Prime Minister. In the meantime, he recommended that Departments should not hesitate to make full use of Temporary Relief from Duty (TRD) procedures, except where to do so would bring serious disadvantages to management. On a contingency basis, legislation had already been drafted to enable the Government to lay off staff who were without work although they were themselves prepared to work normally; if this legislation were to be introduced, it would be contentious and it was important that it should be seen to be clearly necessary in relation to some specific industrial action. There were legal constraints on the curtailing of leave of staff who took industrial action, and he advised that there was no further action to be taken on this front.

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THE ATTORNEY GENERAL said that the scheme, described in Annex A of E(81)62, was designed to avoid penalising Civil Servants for past industrial action - which could lead to court action for unfair dismissal - and to offer an incentive for the avoidance of industrial action in the future. Although he could not guarantee that it would not be successfully challenged in the courts, he judged that it was legally defensible and that the risk of possible successful court action was worth taking.

THE LORD ADVOCATE said that he agreed with the Attorney General's advice.

In discussion the following were the main points made:-

(a) Although the scheme set out in Annex A of E(81)62 presented an ingenious solution to the problem, its implementation could run into severe practical difficulties. Staff concerned might be unwilling to carry out the necessary re-programming of the computers dealing with Civil Servants' pay. Even if they did cooperate, it was thought that in some Departments it was now too late to implement the scheme in July. If this were so it would be unacceptable to pay all Civil Servants the full increase in July and then to attempt to claw back increases from those who had been taking industrial action. It would be necessary to decide well before the end of any month which staff were to be paid the increased amounts. Experience of operating TRD showed that it was difficult to draw a firm line between those taking industrial action and those not. Some staff could claim that they had been absent on sick leave and that their failure to obtain a doctor's certificate was not a reason for penalising them for industrial action - indeed for short absences due to sickness doctors' certificates were not required. It would be difficult and time-consuming for managers to vet such cases. Staff could also respond not by stopping work but by working to rule which could be almost as disruptive as the present action.

(b) The trade union movement would realise that, if the Government were successful in applying this scheme to the Civil Service, other employers would be encouraged to do likewise in dealing with industrial action over pay claims. They would, therefore, resent it as an attack on the unions' freedom to strike. As a result, the Trades Union

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Congress could move from their present position of lukewarm support to one of wholehearted support for the Civil Service unions' action.

(c) It was unclear how Civil Servants would react to the implementation of the scheme. Although many were undoubtedly anxious to be paid the increase, they might well be provoked into taking continuing action in support of individual Civil Servants who, in their view, would be wrongly penalised. If the imposition of the scheme led to a worsening of the relationship between management and staff that could make it more difficult for the Revenue Departments to recoup the present shortfall on tax payments, which was running at about 25 per cent of total.

(d) Most Ministers considered that, in view of these difficulties, it would be better to defer a decision on whether to implement the scheme until it was clearer how the industrial action was developing. It might be better to wait for the industrial action to collapse: many Civil Servants were very anxious for the increases to be paid to them before their holidays; it was thought that the unions' strike funds were running low. In the meantime, however, it would be helpful if further consideration could be given, on a contingency basis, to the practical difficulties which had been identified in the scheme. If the scheme were to be implemented, it would be better for back pay to be paid in monthly instalments rather than as one lump sum. It would be necessary to present the scheme as a firm but not vindictive measure, and to ensure that it was clearly understood both by Civil Servants and the public.

(e) Consideration should be given to the possibility of a direct appeal to individual Civil Servants, perhaps by letters to them or by newspaper advertisements. The aim would be to explain to them the Government's proposals for setting up an inquiry into Civil Service pay arrangements in the longer term and its willingness to implement a 7 per cent increase in pay once the present industrial dispute was resolved. The opportunity should be taken to emphasise in particular the value of the lump sum payment in prospect to individuals on account of the back pay due from 1 April 1981.

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(f) It was agreed that no further action on leave, beyond that described in paragraph 9 of E(81)62, could be taken. It was, however, important to ensure that Civil Servants on strike did not temporarily return to work with the sole purpose of qualifying for leave.

(g) The terms of reference for the inquiry into Civil Service pay proposed by the Lord President of the Council at Annex B of E(81)62 were agreed subject to the addition at the end of the words "including management, structure, recruitment and grading".

(h) It was important that the inquiry should complete its report in the summer of 1982 so that its report could form the basis of the pay settlement due in April 1983. The need for speed argued that the inquiry should not take the form of a Royal Commission.

(i) Although it was important that the inquiry should be set up quickly it might be a mistake to announce it independently of other measures for dealing with the dispute. In so far as it represented a concession to the Civil Service unions its announcement could ease the pressure on them to bring the dispute to an end.

THE PRIME MINISTER, summing up the discussion, said that the Committee agreed that a decision on how, and when, to pay the 7 per cent increase in pay to Civil Servants from 1 April 1981 should be deferred until it was clearer how the industrial action was developing. In the meantime the Lord President of the Council should arrange for further work, in the light of the points made in discussion, on the scheme set out in Annex A of E(81)62. He should also arrange for consideration of the suggestion that the Government might make a direct appeal to individual Civil Servants to bring out to them the advantages of the offer which had been made. The Committee had agreed the changes to the terms of reference recommended by the Lord President of the Council for the inquiry into Civil Servants' pay arrangements in the longer term. She would consider, in consultation with the other Ministers most directly concerned, the membership of the committee of inquiry. The Committee would discuss at a later meeting, probably in the following week, the timing of the announcement of the terms of reference and of the membership of the inquiry and, in the light of developments in the industrial

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action and of the Lord President of the Council's further advice, the case for further action in response to the dispute. This further discussion would cover the legislation which had been prepared on a contingency basis to enable the Government to lay off staff who were without work although they were themselves prepared to work normally; her own view was that such legislation should apply generally and not solely to the Civil Service. The Committee agreed that Departments should respond to industrial action with a more vigorous use of TRD. Pending further decisions, Ministers should continue to make clear that the Government had made a very fair and reasonable offer for a settlement in 1981 and for arrangements in 1982 and were now considering the membership and terms of reference of an inquiry, to be started as soon as possible, into the arrangements for Civil Service pay in the longer term.

The Committee -

1. Invited the Lord President of the Council:
 - i. to refine further the scheme described in Annex A of E(81)62 and variants of it, in the light of their discussion, and to report back;
 - ii. to consider the case for, and possible methods of, informing Civil Servants individually of the benefits which would accrue to them in terms of back pay and in other ways from the implementation of the Government's proposals to settle the present dispute.
2. Approved the terms of reference for the inquiry into Civil Service pay arrangements set out in Annex B of E(81)62, subject to the revisions agreed in discussion.
3. Agreed that the proposed inquiry should not take the form of a Royal Commission.
4. Took note that the Prime Minister, in consultation with other Ministers most directly concerned, would consider further the membership of the committee of inquiry.
5. Agreed to discuss at a later meeting the timing of the announcement of the terms of reference and membership of the inquiry into Civil Service pay arrangements and, in the light of developments, the case for further action in response to the Civil Service pay dispute.
6. Approved the recommendation in paragraph 10(c) of E(81)62.

Cabinet Office
10 June 1981

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