



Ref. A05482

PRIME MINISTER

---

Inquiry into Civil Service Pay: "Issues" Memorandum

The meeting will have before it the draft "Issues" memorandum circulated by the Lord President's office on 3 September and the Chancellor's minute to you of 9 September proposing a redraft of paragraphs 4, 7 and 8 of the memorandum.

HANDLING

2. You will wish to invite the Lord President's comments on the Chancellor's redrafts. He is likely to accept the Chancellor's redrafts as a basis for discussion and go on to make three points:

- (a) There are a few factual corrections which can be agreed by officials.
- (b) In one or two places the draft may be unnecessarily provocative and should be softened without altering the substance.
- (c) There is a major issue of principle raised in the Chancellor's paragraphs 4(c) and 8 about the concept of "affordability" and the way in which it should be brought into the system.

3. There ought to be no difficulty in reaching agreement on (a) and (b), and the main issue for discussion is, therefore, "affordability". The Chancellor attaches great importance to making Civil Service pay negotiations more like pay negotiations in the private sector. The Lord President is, however, likely to argue that the Chancellor's proposal is at variance with the Government's wish to have agreed settlements as a general rule and to take adequate account of recruitment and retention needs. He may fear that the Chancellor is seeking to inject into the pay negotiations every year a finite figure of what the Government can afford based purely on financial and macro-economic considerations and that this figure is meant to be a factor which takes automatic precedence over information on recruitment and retention and on wages and salaries outside the Civil Service. This would be in addition to the powers to "override" from time to time in exceptional circumstances.



4. Discussion may show that the Chancellor is seeking something less rigid. He may be concerned only to ensure that at an early and influential stage in the process the Government has an opportunity to feed in a view of what it ought to pay, taking account of all relevant factors (managerial as well as financial and macro-economic). This would counterbalance the other material but would not automatically take precedence over it and would be provisional rather than finite. If this is what the Chancellor wants, the Lord President may be able to reach agreement in principle with him but may suggest that the wording of the Chancellor's proposed paragraphs 4(c) and 8 needs to be amended.

5. If this is the outcome, you may wish to suggest that the Cabinet Office should, in consultation with the Treasury and CSD, prepare a redraft of the disputed passages to reflect Ministers' wishes. That is likely to be acceptable to the Chancellor and the Lord President.

A handwritten signature in black ink, consisting of the letters 'R' and 'A' in a stylized, cursive font.

ROBERT ARMSTRONG

9 September 1981