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15 October 1980

Policy Unit

PRIME MINISTER

*Original returned
Copy on Civil Service Pay*

COMPARABILITY AND CASH LIMITS: FUTURE OPTIONS

1. As the Chancellor's covering note to E(80)115 says, the paper by officials does not deal sufficiently with the fundamental issues. Nor do we think the real choice is, as the Lord President argues in E(80)114, between comparability and determining Civil Service pay by Government fiat.
2. We see the fundamental choice as between the following two approaches to Civil Service pay:
 - (a) Free collective bargaining. If we go down this route, then it is essential to change some of the ground rules. These would include:
 - (i) Allowing management to withhold pay from those laid off as a result of strike action by others. This would reduce the power of the selective strike weapon - though by no means eliminate it. The power that small groups of workers in the public service have to disrupt an increasingly complex system is a fact of life. We can try to make contingency plans in the most obvious cases.
 - (ii) Decentralising the bargaining arrangements might make sense. (We have not yet seen CSD's promised study of this - though no doubt it will present many difficulties.)
 - (iii) Various changes - including management style and merit payments - might increase the motivation, toughness and skill of management negotiators.
 - (iv) The present pay agreement and conditions of service might need to be changed. This would include changing the arbitration provisions, though according to the Secretary of State for Employment's paper, it is firmly established by convention that the Government is not bound to honour the arbitration provisions in the agreement.

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- (b) A comparability-based system. This would have to incorporate some of the improvements on the old system that the Lord President is now trying to negotiate. It might also involve a "step change" downwards in pay levels to reflect the value of an indexed pension. Alternatively, the pension arrangements themselves could be modified. Although it sounds ambitious, in the longer term we think the price for a comparability-based system (a genuine one, with certain minimum guarantees) should be a no-strike agreement. The Police and Armed Forces are, of course, already unable to strike. The continuation of the indexed pension could be another negotiable element in achieving this.
3. In thinking about our choice of approach for the longer term, we should distinguish between the requirements of Transition and Stable State. When inflation is under control, a sensibly designed comparability system, with a no-strike agreement, might be a better way of paying the Civil Service. In the interim, with high unemployment in the private sector, we know that an early return to backward-looking comparability can make no sense.

Next year

4. We strongly support the Chancellor's view that the right level for the next settlement will be close to the bottom end of the present money supply target range. Paragraph 5 of the Lord President's paper says that two factors are important: avoiding an "unrealistically low" cash limit; and avoiding a charge of discrimination. A third important factor may be what we are able to tell the Civil Service about our broad approach for the future.
5. I am sending a copy of this minute to Geoffrey Howe, Robin Ibbs and Sir Robert Armstrong.

