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SUBJECT

MOST CONFIDENTIAL RECORD

CC (81) 21st Conclusions, Minute 5

THURSDAY 4 JUNE 1981

No.	Contents	Date
	CIVIL SERVICE PAY	

*File*  
*Sr. R. Armstrong to see.**✓ Jm  
5/6*

4th June 1981

Cabinet: Thursday 4th June 1981

The record of today's Cabinet discussion on the Civil Service Pay dispute has been produced as a Most Confidential Record. I enclose a copy with this letter which also goes to John Wiggins (Treasury) and Jim Buckley (CSD).

The Cabinet Conclusions contain no reference to the existence of this record. It should not, therefore, be referred to or quoted from.

I should also emphasise the considerable sensitivity of this record. It is not being copied to any other Government Department and needs to be protected. I should, therefore, be grateful if John Wiggins and Jim Buckley could ensure that the record does not leave their Private Offices and that the only officials to see it are their Permanent Secretaries.

In due course, I should be grateful if copies could be returned to me in the Cabinet Office.

**D. J. WRIGHT**

(D. J. Wright)

C. A. Whitmore, Esq

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MOST CONFIDENTIAL RECORD  
TO  
CC(81) 21st CONCLUSIONS, MINUTE 5  
Thursday 4 June 1981

CIVIL  
SERVICE  
PAY

Previous  
Reference:  
● (81) 20th  
Conclusions,  
Minute 4

THE LORD PRESIDENT OF THE COUNCIL said that the Council of Civil Service Unions had given notice on 26 May that, unless negotiations took place or arbitration was agreed by 8 June, they would extend their present selective industrial action to areas of work which had not hitherto been affected. They had, however, asked for talks with the Civil Service Department with a view to seeing whether the dispute could be resolved without resort to such further action. In the light of those talks, he judged that a majority of the leaders of the 9 Civil Service Unions were genuine in their wish to bring the dispute to an end and that they had not asked for a resumption of discussions simply to try to regain some public support for their case. Although the details were still for discussion, it was likely that agreement could be reached on wide-ranging terms of reference for an inquiry into the longer term arrangements for determining Civil Service pay. The unions would expect that arbitration would be again available to them in 1982 but they appeared to recognise that the Government had to retain ultimate control of Civil Service pay and, therefore, to have a power to override, subject to Parliament approval, an arbitral award. He judged that from 1981 they might be willing to recommend their members to accept an increase of  $7\frac{1}{2}$  per cent, but not the 7 per cent which the Government had so far offered. After careful examination of the figures, he was satisfied that a  $7\frac{1}{2}$  per cent increase could be accommodated within a cash limit of 6 per cent without further planned reductions in Civil Service staff numbers; this was now possible because the run down of numbers had proved to be faster than had been assumed earlier in the year. The additional  $\frac{1}{2}$  per cent would cost about £25 million for the industrial and non-industrial Service together. He would offer an increase of  $7\frac{1}{2}$  per cent only if, following prior soundings, he was satisfied that union leaders would be willing to put it to their members, albeit without a recommendation, and that this was likely to lead to an end to the dispute. He invited the Cabinet to give him authority for this course of action. If, on the other hand, he could offer no further concessions he saw no chance of a settlement being reached and the certainty of an escalation in the industrial action. After a few months it might well be that this action would collapse and the Government could impose a settlement, but this would be at the expense of increasing costs to the Government and of increasing criticism from the public.

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In discussion of the increase to be offered for 1981 the following were the main points made in support of increasing the offer to  $7\frac{1}{2}$  per cent:-

- a. The resumed talks between the unions and the Civil Service Department had offered a possibility, which was open until 8 June, of bringing the dispute to an end. While industrial opinion would obviously prefer a settlement of 7 per cent it was likely that they would find a settlement of less than 8 per cent acceptable, particularly if this could be accommodated within the 6 per cent cash limit on Civil Service pay which the Government had always made clear was the primary discipline on the Civil Service pay bill. A settlement of  $7\frac{1}{2}$  per cent would be the same as that reached for local authority manual workers and for the teachers. If its award was effective in bringing the present dispute to an end, it would be widely regarded as a very successful outcome for the Government.
- b. If no concessions were made, the present, relatively moderate, Civil Service Union leaders would lose the support of their membership. The Government would then risk facing, both in the present dispute and in later years, a much more hostile and militant union leadership. It could be damaging to the Government if, as a result of a protracted dispute, its relationship with its employees was soured and embittered.
- c. If the industrial action were to be escalated the costs, and the disruptions to services, would increase sharply. Failures to record national insurance contributions were already making it impossible to determine the level of pensions to be paid. Short term benefits could not be calculated accurately and, while under-payments would have to be made good, it would be very difficult to claw back over-payments, with the result that net public expenditure would increase. If action were to be escalated in Department of Employment and Social Security offices, it might become impossible to introduce from April 1982 the taxation of unemployment benefit; and the uprating of social security benefits and the payment of child benefit could be affected. Farmers' cash flow was already suffering from delays in payments due to them. Contracts for work to be carried out by private sector firms were not being issued, and some firms could go out of business as a result. Industrial action by the air traffic controllers was continuing and the airlines had already lost £20 million revenue which would increase to £45 million if the action were to continue for another four weeks. Emergency legislation would be necessary to deal with the delays in processing cases in the Scottish courts.

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The main arguments in support of making no increase beyond the present offer of 7 per cent were:-

d. Even if  $7\frac{1}{2}$  per cent could be accommodated within a 6 per cent cash limit, the Government was firmly committed to its offer of 7 per cent. A further increase now would be widely criticised as unnecessary and as weak. Although the short-fall on revenue, resulting from action by the staff of the Inland Revenue and Customs and Excise, was now in the order of £3 -  $3\frac{1}{2}$  billion, most of this would be recouped later in the year when the action was over; the monetary figures which were due to be published shortly were likely to strike commentators as being surprisingly good, and would undermine the unions' claims that their action was damaging the Government's economic policies. The unions' morale was declining and their confidence weakened by the realisation that public opinion generally supported the Government and that this support could be reinforced if the action were to be escalated. Against this background, industrial, financial and Conservative Party back-bench opinion was likely to be highly critical of any increase in the present offer of 7 per cent. Local authorities, which had conformed with the Government's objective that they should reach pay settlements within their cash limits, would be critical if the Government were now to go back on its declared intention of giving no more than 7 per cent to its own employees. Any increase beyond 7 per cent would add considerably to the present difficulties of reaching a settlement of 6 per cent for the National Health Service groups.

e. Even if the union leadership were to recommend their members to accept  $7\frac{1}{2}$  per cent, there was no guarantee that this would be accepted. The Government would then be faced with the prospect of either continuing industrial action or yet further concessions. It was, moreover, questionable whether a  $7\frac{1}{2}$  per cent increase could be accommodated within a 6 per cent cash limit. The present assumptions could prove wrong if later in the year new demands - for example, for the payment of unemployment benefit - were to check the fall in staff numbers.

f. In standing firm on the present offer the Government could continue to point out that two substantial concessions had already been offered to the unions. It had been agreed that there should be greater flexibility in 1982 in the operation of cash limits. A wide ranging and independent inquiry had been offered with a view to introducing new arrangements for the longer term. (Although it was noted that the unions could well regard this as more likely to bring benefits to the Government rather than to themselves.)

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In further discussion the following were the main points made:-

g. Consideration should now be given to imposing, with effect from April 1981, the proposed 7 per cent increase for the non-industrial Civil Service. It was likely that industrial civil servants would then also accept 7 per cent from July 1981. The risk of this course was that civil servants would receive increased pay but many of them might continue to support industrial action for more concessions. The alternative of imposing a 7 per cent settlement on those who were working at a specified date would lead to the drawing of invidious and unsatisfactory distinctions; many of those who were purporting to work were in practice supporting continuing industrial action.

h. There were considerable disadvantages in offering arbitration, subject to Parliamentary override, in 1982. In practice it could be very difficult for the Government to secure Parliamentary approval for the overriding of an arbitral award which was higher than the Government would wish but not so much higher as to be patently unacceptable. If as a result the Civil Service were to receive increases in 1982 higher than those for which the Government had planned, public expenditure would increase (or other public expenditure programmes would have to be cut back) and there would be an adverse effect on other pay settlements, both in the public sector and the private. ;

THE PRIME MINISTER summing up the discussion said that the Cabinet agreed on balance that there should be no increase in the present offer, to which the Government was firmly and publicly committed, of 7 per cent for the non-industrial Civil Service from April 1981. They further agreed that there should be no commitment to arbitration on pay in 1982; such a commitment, even if it were subject to Parliamentary override, could prove to be extremely costly both in terms of the Civil Service pay bill and the consequences for other pay settlements. In explaining its decision to stand firm on the present offer, the Government had an excellent case to deploy: in addition to offering a 7 per cent pay increase in 1981, it had accepted greater flexibility in the operation of the cash limit system in 1982, and proposed an independent and wide-ranging inquiry into the arrangements for the longer term. Moreover it was the case that civil servants enjoyed greater job security than private sector employees, had the benefit of inflation proofed pensions and benefitted in many cases from the system of annual increments. It was also relevant that the 7 per cent pay increase on offer to them represented something nearer to a 10 per cent increase in annual pay compared with last year when the agreed increase had been staged. If the dispute continued it would be necessary to consider further the case for imposing the settlement of 7 per cent with effect from 1 April 1981.



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The Cabinet -

Agreed:-

1. That there should be no increase in the offer of 7 per cent on the pay of non-industrial civil servants from April 1981.
2. That no undertaking should be given to allow arbitration on Civil Service pay in 1982.

Cabinet Office

4 June 1981