

bc Mr Vercher
Mr Hoshyn
Mr Wolfson
ck. Martin

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10 DOWNING STREET

From the Private Secretary

7 July 1981

Dear Jim,

As you know, the Prime Minister held a meeting this morning to discuss the Civil Service dispute. In addition to the Lord President, the Chancellor of the Exchequer, the Secretary of State for Employment, Gordon Burrett and Peter le Cheminant were present.

They had before them the Lord President's minute of 6 July and a note prepared here at No. 10 on possible steps towards a settlement of the dispute (numbered copies of which were handed round to those present).

Commenting on the latter note, Mr. Burrett said that, in his view, the Government would stand an indifferent chance of reaching an early settlement with the unions unless they offered something for 1982. From his informal contacts with the unions, it was clear that the union leaders were keen to find a solution to the dispute; but that they would insist on a further concession for 1982 - and in particular, the bringing in of a third party into the 1982 negotiations.

The Lord President said that although the union leaders were anxious for a settlement, there was increasing resentment amongst rank and file civil servants that the Government had not come forward with a solution. He believed it would be more difficult now than it was a month ago to reach a settlement. Like Mr. Burrett, he felt that no early settlement would be possible without a concession on 1982; and Ministers should once again seriously consider offering some form of arbitration. As regards the possibility of raising the offer to 7½ per cent, his minute indicated that this could be financed without breaching the 6 per cent cash limit because of likely underspending on pay and administrative services. But if the Government was to go down this route, it was important to avoid any impression that it was giving decisions on Civil Service manpower over to the unions. Ministers could say, after the event, that the unions had opted for lower employment and higher pay; but there should be no question of seeking the unions' agreement to the lower manpower figures.

In discussion, it was generally felt that the approach set out in the No. 10 note could provide a way to an early settlement, provided it were to include also the concession of arbitration in 1982. It was noted that arbitration could be offered in one of three forms. First, the Government could simply reaffirm that, although not committed to arbitration, it did not rule it out;

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second, arbitration could be offered subject to the Government reserving the right to turn the arbitration down; third, it could be offered subject to the House of Commons having the right to turn the arbitration down. It was argued that arbitration was the only realistic way of bringing a third party into the 1982 negotiations: the alternative of asking the Inquiry to help produce a settlement would divert it from its task of making recommendations for a new long-term pay system. As regards the 7½ per cent proposal, it was essential that there should be a clear link between the extra half per cent and reduced numbers. Precisely how this link should be established and presented would have to be considered further. It was for consideration whether further manpower savings should be insisted upon over and above the reductions which, in the light of the Lord President's minute, the CSD were already expecting. If further reductions were to take place, it had to be recognised that this would require hard policy decisions. It was also important to ensure that any extra money for pay was found from within the existing provision for pay, and not from within the provision for administrative expenditure.

In further discussion, it was suggested that it might not be necessary to offer both 7½ per cent and arbitration. It was possible that arbitration alone would produce a settlement. It should be possible to ascertain this by sounding the unions out privately after the announcement on Thursday, as was proposed, of the withdrawal of the original offer. It was generally agreed that it would be wrong to offer the restoration of leave and pension rights to those who had been on strike, but that the restoration of lost seniority could be offered. It was also agreed that it would be a useful douceur to offer the unions a nominee for the Inquiry membership, and that for the time-being therefore no further approach should be made to Mr. Gavin Laird (Mr Prior had explained that Mr. Laird was unlikely to be available).

Summing up, the Prime Minister said that a note should be prepared by No. 10 and the CSD for circulation at Cabinet on Thursday. This should be on the lines of the note which they had already considered, but it should be revised to take into account the points made in discussion. In particular, the three options for arbitration should be spelled out.

I am sending numbered copies of this letter to Richard Dykes (Department of Employment), John Wiggins (HM Treasury) and David Wright (Cabinet Office).

Jim Buckley, Esq.,
Lord President's Office

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